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**ANNUAL REPORT
CHECKLIST
for
FISCAL YEAR ENDED:
December 31, 2014**

PROVIDER: Northern California Congregational Retirement Homes, Inc.

FACILITY (IES): Carmel Valley Manor

CONTACT PERSON: Mr. Richard Baloga
TELEPHONE NO.: (831) 626-4870

✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓

Your complete annual report must consist of 3 copies of all of the following:

- ✓ This cover sheet.
- ✓ Annual Provider Fee in the amount of: \$ 12,158
 - ✓ If applicable, late fee in the amount of: \$ 0
- ✓ Certification by the provider's chief *executive* officer that:
 - ✓ The reports are correct to the best of his/her knowledge.
 - ✓ Each continuing care contract form in use or offered to new residents has been approved by the Department.
 - ✓ The provider is maintaining the required liquid reserve and refund reserve, if applicable.
- ✓ Evidence of the provider's fidelity bond.
- ✓ The provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.
- ✓ The provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.
- ✓ The provider's "Continuing Care Retirement Community Disclosure Statement" for **each** community.

**NORTHERN CALIFORNIA
CONGREGATIONAL
RETIREMENT HOMES, INC.**

**FINANCIAL STATEMENTS
AND ACCOMPANYING INFORMATION
DECEMBER 31, 2014**

PKF

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC

December 31, 2014

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Accountants and
Business Advisers

Independent Auditor's Report

Board of Directors
Northern California Congregational
Retirement Homes, Inc.
Carmel, California

We have audited the accompanying financial statements of Northern California Congregational Retirement Homes, Inc. (the Corporation) which comprise the statements of financial position as of December 31, 2014 and 2013 and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northern California Congregational Retirement Homes, Inc. as of December 31, 2014 and 2013, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Certified Public Accountants
A Professional Corporation

April 27, 2015

PKF, Certified Public Accountants, A Professional Corporation
425 California Street, Suite 1600, San Francisco, CA 94104 Telephone: (415) 421-5378 Facsimile: (415) 956-7708
Email: pkf@pkfsf.com | Website: www.pkfcalifornia.com

The PKF International Limited is a network of legally independent firms.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Statements of Financial Position

	December 31, 2014						December 31, 2013					
	Unrestricted		Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted		Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	Undesignated	Designated					Undesignated	Designated				
Assets												
Cash	\$ 2,587,443	\$ 92,795	\$ 2,680,238	\$ 88,395	\$ -	\$ 2,768,633	\$ 1,278,948	\$ 191,729	\$ 1,470,677	\$ 256,640	\$ -	\$ 1,727,317
Accounts receivable	237,620	182,269	419,889	214,831	-	634,720	240,544	-	240,544	-	-	240,544
Due (to) from other funds	(100,930)	45,390	(55,540)	55,540	-	-	(56,093)	(19,281)	(75,374)	75,374	-	-
Prepaid expenses	161,948	-	161,948	-	-	161,948	135,184	-	135,184	-	-	135,184
Total current assets	2,886,081	320,454	3,206,535	358,766	-	3,565,301	1,598,583	172,448	1,771,031	332,014	-	2,103,045
Investments	7,067,524	8,746,514	15,814,038	4,068,799	3,939,796	23,822,633	6,848,477	8,305,676	15,154,153	4,135,338	3,939,796	23,229,287
Property and equipment - net of accumulated depreciation	34,513,912	-	34,513,912	-	-	34,513,912	34,905,311	-	34,905,311	-	-	34,905,311
Cash surrender value of life insurance	391,714	-	391,714	-	-	391,714	373,816	-	373,816	-	-	373,816
Total assets	\$ 44,859,231	\$ 9,066,968	\$ 53,926,199	\$ 4,427,565	\$ 3,939,796	\$ 62,293,560	\$ 43,726,187	\$ 8,478,124	\$ 52,204,311	\$ 4,467,352	\$ 3,939,796	\$ 60,611,459
Liabilities and Net Assets												
Accounts payable	\$ 412,363	\$ -	\$ 412,363	\$ -	\$ -	\$ 412,363	\$ 493,967	\$ -	\$ 493,967	\$ -	\$ -	\$ 493,967
Accrued liabilities	671,497	-	671,497	-	-	671,497	589,391	-	589,391	-	-	589,391
Current portion of long-term debt	105,784	-	105,784	-	-	105,784	100,786	-	100,786	-	-	100,786
Total current liabilities	1,189,644	-	1,189,644	-	-	1,189,644	1,184,144	-	1,184,144	-	-	1,184,144
Advances from applicants	926,850	-	926,850	-	-	926,850	737,915	-	737,915	-	-	737,915
Long-term debt - net of current portion	3,967,065	-	3,967,065	-	-	3,967,065	4,072,849	-	4,072,849	-	-	4,072,849
Deferred income from entrance fees	26,128,647	-	26,128,647	-	-	26,128,647	24,677,670	-	24,677,670	-	-	24,677,670
Annuity obligations	-	-	-	1,126,004	-	1,126,004	-	-	-	1,104,930	-	1,104,930
Post retirement obligation	157,920	-	157,920	-	-	157,920	172,879	-	172,879	-	-	172,879
Total liabilities	32,370,126	-	32,370,126	1,126,004	-	33,496,130	30,845,457	-	30,845,457	1,104,930	-	31,950,387
Net assets												
Unrestricted												
Undesignated	12,489,105	-	12,489,105	-	-	12,489,105	12,880,730	-	12,880,730	-	-	12,880,730
Designated	-	9,066,968	9,066,968	-	-	9,066,968	-	8,478,124	8,478,124	-	-	8,478,124
Temporarily restricted	-	-	-	3,301,561	-	3,301,561	-	-	-	3,362,422	-	3,362,422
Permanently restricted	-	-	-	-	3,939,796	3,939,796	-	-	-	-	3,939,796	3,939,796
Total net assets	12,489,105	9,066,968	21,556,073	3,301,561	3,939,796	28,797,430	12,880,730	8,478,124	21,358,854	3,362,422	3,939,796	28,661,072
Total liabilities and net assets	\$ 44,859,231	\$ 9,066,968	\$ 53,926,199	\$ 4,427,565	\$ 3,939,796	\$ 62,293,560	\$ 43,726,187	\$ 8,478,124	\$ 52,204,311	\$ 4,467,352	\$ 3,939,796	\$ 60,611,459

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Statements of Activities and Changes in Net Assets

	Year Ended December 31, 2014					Year Ended December 31, 2013					
	Unrestricted		Total	Temporarily	Permanently	Unrestricted		Total	Temporarily	Permanently	Total
	Undesignated	Designated	Unrestricted	Restricted	Restricted	Undesignated	Designated	Unrestricted	Restricted	Restricted	
Income from operations											
Resident care fees	\$ 8,267,309	\$ -	\$ 8,267,309	\$ -	\$ -	\$ 8,603,097	\$ -	\$ 8,603,097	\$ -	\$ -	\$ 8,603,097
Entrance fees	3,641,350	-	3,641,350	-	-	3,879,524	-	3,879,524	-	-	3,879,524
Medical Center routine services	1,394,200	-	1,394,200	-	-	1,384,156	-	1,384,156	-	-	1,384,156
Other resident services and operating income	385,241	32,181	417,422	-	-	313,172	31,369	344,541	-	-	344,541
Total income from operations	13,688,100	32,181	13,720,281	-	-	14,179,949	31,369	14,211,318	-	-	14,211,318
Other income (loss)											
Interest and dividends	357,135	347,549	704,684	339,033	-	236,946	225,356	462,302	250,870	-	713,172
Net realized and unrealized gains (losses)	(41,065)	(76,949)	(118,014)	(11,413)	-	425,311	220,473	645,784	471,087	-	1,116,871
Processing fees	7,150	-	7,150	-	-	3,400	-	3,400	-	-	3,400
Contributions	37,350	63,348	100,698	115,354	-	71,900	139,008	210,908	102,679	-	313,587
Change in value of split-interest trusts	-	-	-	(207,677)	-	-	-	-	81,811	-	81,811
Total other income	360,570	333,948	694,518	235,297	-	737,557	584,837	1,322,394	906,447	-	2,228,841
Net assets released from restrictions											
Endowment income distribution	542,856	(248,628)	294,228	(294,228)	-	522,204	(222,981)	299,223	(299,223)	-	-
Remainder of terminated annuity trusts	-	1,930	1,930	(1,930)	-	-	534,548	534,548	(534,548)	-	-
Satisfaction of program restrictions	-	-	-	-	-	1,525	-	1,525	(1,525)	-	-
Board designated transfers	(469,413)	469,413	-	-	-	368,966	(368,966)	-	-	-	-
Total released from restrictions	73,443	222,715	296,158	(296,158)	-	892,695	(57,399)	835,296	(835,296)	-	-
Total revenue and other support	14,122,113	588,844	14,710,957	(60,861)	-	15,810,201	558,807	16,369,008	71,151	-	16,440,159
Expenses											
Operating											
Residential care	8,632,454	-	8,632,454	-	-	8,642,266	-	8,642,266	-	-	8,642,266
Medical Center	3,526,043	-	3,526,043	-	-	3,485,888	-	3,485,888	-	-	3,485,888
Interest	204,266	-	204,266	-	-	224,772	-	224,772	-	-	224,772
Depreciation	2,150,975	-	2,150,975	-	-	2,034,516	-	2,034,516	-	-	2,034,516
Total expenses	14,513,738	-	14,513,738	-	-	14,387,442	-	14,387,442	-	-	14,387,442
Change in net assets	(391,625)	588,844	197,219	(60,861)	-	1,422,759	558,807	1,981,566	71,151	-	2,052,717
Net assets, beginning of year	12,880,730	8,478,124	21,358,854	3,362,422	3,939,796	11,457,971	7,919,317	19,377,288	3,291,271	3,939,796	26,608,355
Net assets, end of year	\$ 12,489,105	\$ 9,066,968	\$ 21,556,073	\$ 3,301,561	\$ 3,939,796	\$ 12,880,730	\$ 8,478,124	\$ 21,358,854	\$ 3,362,422	\$ 3,939,796	\$ 28,661,072

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Statements of Cash Flows

	Year Ended December 31, 2014						Year Ended December 31, 2013					
	Unrestricted		Total	Temporarily	Permanently		Unrestricted		Total	Temporarily	Permanently	
	Undesignated	Designated	Unrestricted	Restricted	Restricted	Total	Undesignated	Designated	Unrestricted	Restricted	Restricted	Total
Cash flows from operating activities												
Revenues												
Resident care fees	\$ 8,267,309	\$ -	\$ 8,267,309	\$ -	\$ -	\$ 8,267,309	\$ 8,603,097	\$ -	\$ 8,603,097	\$ -	\$ -	\$ 8,603,097
Entrance fees	5,358,170	-	5,358,170	-	-	5,358,170	1,590,120	-	1,590,120	-	-	1,590,120
Medical Center routine services	1,394,200	-	1,394,200	-	-	1,394,200	1,384,156	-	1,384,156	-	-	1,384,156
Other resident services and operating income	366,663	32,181	398,844	-	-	398,844	338,609	31,369	369,978	-	-	369,978
Interest and dividends	345,778	339,717	685,495	-	-	685,495	237,387	225,356	462,743	-	-	462,743
Processing fees	7,150	-	7,150	-	-	7,150	3,400	-	3,400	-	-	3,400
Contributions	69,050	63,194	132,244	-	-	132,244	17,479	139,008	156,487	-	-	156,487
Net assets released from restrictions	115,768	167,325	283,093	-	-	283,093	748,419	(616,614)	131,805	-	-	131,805
Total revenues	15,924,088	602,417	16,526,505	-	-	16,526,505	12,922,667	(220,881)	12,701,786	-	-	12,701,786
Expenses												
Cash paid for operating expenses	(12,172,595)	-	(12,172,595)	-	-	(12,172,595)	(11,822,793)	-	(11,822,793)	-	-	(11,822,793)
Interest paid	(204,681)	-	(204,681)	-	-	(204,681)	(225,168)	-	(225,168)	-	-	(225,168)
Total expenses	(12,377,276)	-	(12,377,276)	-	-	(12,377,276)	(12,047,961)	-	(12,047,961)	-	-	(12,047,961)
Net cash provided by (used in) operating activities	3,546,812	602,417	4,149,229	-	-	4,149,229	874,706	(220,881)	653,825	-	-	653,825
Cash flows from investing activities												
Proceeds from sale of investments	2,122,093	2,485,928	4,608,021	2,826,902	-	7,434,923	1,368,128	1,403,063	2,771,191	2,414,867	-	5,186,058
Purchase of investments	(2,550,009)	(3,177,999)	(5,728,008)	(2,948,495)	-	(8,676,503)	(1,655,329)	(4,518,266)	(6,173,595)	(1,725,612)	-	(7,899,207)
Purchase of property and equipment	(1,632,707)	-	(1,632,707)	-	-	(1,632,707)	(2,313,801)	-	(2,313,801)	-	-	(2,313,801)
Net cash provided by (used in) investing activities	(2,060,623)	(692,071)	(2,752,694)	(121,593)	-	(2,874,287)	(2,601,002)	(3,115,203)	(5,716,205)	689,255	-	(5,026,950)
Cash flows from financing activities												
Repayment of long-term debt	(100,786)	-	(100,786)	-	-	(100,786)	(593,911)	-	(593,911)	-	-	(593,911)
Restricted contributions	-	-	-	162,538	-	162,538	-	-	-	76,423	-	76,423
Investment income restricted for reinvestment	-	-	-	340,275	-	340,275	-	-	-	268,342	-	268,342
Investment income released from restrictions	-	-	-	(294,229)	-	(294,229)	-	-	-	(299,224)	-	(299,224)
Payment of annuity obligations	-	-	-	(264,516)	-	(264,516)	-	-	-	(273,014)	-	(273,014)
Repayment of entrance fees	(76,908)	-	(76,908)	-	-	(76,908)	(326,858)	-	(326,858)	-	-	(326,858)
(Payment) receipt of remainder interest in annuity trusts	-	(9,280)	(9,280)	9,280	-	-	-	543,829	543,829	(408,384)	-	135,445
Net cash provided by (used in) financing activities	(177,694)	(9,280)	(186,974)	(46,652)	-	(233,626)	(920,769)	543,829	(376,940)	(635,857)	-	(1,012,797)
Net increase (decrease) in cash	1,308,495	(98,934)	1,209,561	(168,245)	-	1,041,316	(2,647,065)	(2,792,255)	(5,439,320)	53,398	-	(5,385,922)
Cash, beginning of year	1,278,948	191,729	1,470,677	256,640	-	1,727,317	3,926,013	2,983,984	6,909,997	203,242	-	7,113,239
Cash, end of year	\$ 2,587,443	\$ 92,795	\$ 2,680,238	\$ 88,395	\$ -	\$ 2,768,633	\$ 1,278,948	\$ 191,729	\$ 1,470,677	\$ 256,640	\$ -	\$ 1,727,317

See notes to the financial statements

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Statements of Cash Flows (Continued)

	Year Ended December 31, 2014						Year Ended December 31, 2013					
	Unrestricted		Total	Temporarily	Permanently	Total	Unrestricted		Total	Temporarily	Permanently	Total
	Undesignated	Designated	Unrestricted	Restricted	Restricted		Undesignated	Designated	Unrestricted	Restricted	Restricted	
Reconciliation of change in net assets to net cash provided by operating activities												
Change in net assets	\$ (391,625)	\$ 588,844	\$ 197,219	\$ (60,861)	\$ -	\$ 136,358	\$ 1,422,759	\$ 558,807	\$ 1,981,566	\$ 71,151	\$ -	\$ 2,052,717
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities												
Restricted income and expense	-	-	-	89,755	-	89,755	-	-	-	501,388	-	501,388
Depreciation	2,150,975	-	2,150,975	-	-	2,150,975	2,034,516	-	2,034,516	-	-	2,034,516
Bad debt expense	53,600	-	53,600	-	-	53,600	-	-	-	-	-	-
Net realized and unrealized gains	41,065	76,949	118,014	11,413	-	129,427	(425,311)	(220,473)	(645,784)	(471,087)	-	(1,116,871)
Donated securities	-	(155)	(155)	(31,038)	-	(31,193)	-	-	-	(101,452)	-	(101,452)
Cash surrender value of life insurance	(17,898)	-	(17,898)	-	-	(17,898)	(15,641)	-	(15,641)	-	-	(15,641)
Amortization of entrance fees	(3,641,350)	-	(3,641,350)	-	-	(3,641,350)	(3,879,524)	-	(3,879,524)	-	-	(3,879,524)
Entrance fees received	5,169,235	-	5,169,235	-	-	5,169,235	1,664,711	-	1,664,711	-	-	1,664,711
(Increase) decrease in operating assets												
Accounts receivable	13,025	(7,831)	5,194	(9,269)	-	(4,075)	122,676	-	122,676	-	-	122,676
Due (to) from other funds	42,641	(55,390)	(12,749)	-	-	(12,749)	(143,835)	(559,215)	(703,050)	-	-	(703,050)
Prepaid expenses	(26,764)	-	(26,764)	-	-	(26,764)	114,915	-	114,915	-	-	114,915
Increase (decrease) in operating liabilities												
Accounts payable	(102,174)	-	(102,174)	-	-	(102,174)	149,363	-	149,363	-	-	149,363
Accrued liabilities	67,147	-	67,147	-	-	67,147	(95,332)	-	(95,332)	-	-	(95,332)
Advances from applicants	188,935	-	188,935	-	-	188,935	(74,591)	-	(74,591)	-	-	(74,591)
Total adjustments	3,938,437	13,573	3,952,010	60,861	-	4,012,871	(548,053)	(779,688)	(1,327,741)	(71,151)	-	(1,398,892)
Net cash provided by (used in) operating activities	\$ 3,546,812	\$ 602,417	\$ 4,149,229	\$ -	\$ -	\$ 4,149,229	\$ 874,706	\$ (220,881)	\$ 653,825	\$ -	\$ -	\$ 653,825

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements
December 31, 2014

Note 1 - Summary of significant accounting policies

Nature of operations

Northern California Congregational Retirement Homes, Inc. (the Corporation) is a nonprofit public benefit corporation that operates Carmel Valley Manor (the Manor), a life care facility located in Carmel, California. The Manor opened in October 1963, and consists of 148 independent living units including five single family homes adjacent to the original Manor property, 24 assisted living units and 36 medical center beds. The Manor provides meals, lodging, most medical care, and miscellaneous services to approximately 223 residents.

Fund accounting

The accounts of the Corporation have been maintained in accordance with principles of fund accounting. Under these principles, resources are classified for accounting purposes into funds established according to their nature and purpose. The individual funds of the Corporation are as follows:

- The Operating Fund comprises resources that are available for support of the Manor's operations.
- The Endowment Fund is comprised of two parts, Part A and Part B.

Part A consists of (1) donations, gifts, bequests made to the Endowment Fund and other unrestricted bequests apparently intended to be enduring and in compliance with the purpose of the fund; (2) remainder interests in those Charitable Remainder Annuity Trusts terminated prior to March 1, 1994; (3) those trusts created prior to March 1, 1994 unless the trustors have specified in writing that the remainder interests shall be placed in Part B; and (4) those trusts created on or after March 1, 1994 with the written consent of the trustors. The principal of Part A shall accumulate and be retained in perpetuity to provide increasing income to the Manor and may be used only to meet the statutory reserve requirements of the State of California or to meet unforeseen emergencies if the assets in Part B are insufficient for these purposes. The investment return on Part A assets are temporarily restricted.

Part B consists of (1) any funds transferred from the Manor's reserve (operating) fund at the designation of the Board; (2) remainder interests in trusts created prior to March 1, 1994 with the written consent of the trustors; and (3) remainder interests in trusts created on or after March 1, 1994 provided the trustors have not specified in writing that such remainder interests shall be placed in Part A. The principal of Part B has no outside restrictions and can be utilized with the approval of the Board of Trustees for: unforeseen emergencies; funding improvements which are financially sound and will substantially improve the quality of life at the Manor; compliance with regulatory requirements; reducing operating expenses and debt which may have been or may be incurred to fund improvements.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 1 - Summary of significant accounting policies (continued)

- The Charitable Remainder Annuity Trusts Fund (Annuity Trusts Fund) consists of the remaining principal amounts of annuity gifts to the Corporation. Under individual trust agreements, the Corporation is required to pay stipulated annuities to the donor over the donor's lifetime. The contribution portion of the gift is determined in the year the trust is established and recorded on the statements of activities and changes in net assets, as the difference between the fair value of the trust assets and the present value of the estimated annuity payments to be paid over the expected life of the annuitant using a discount rate of 8%, which is recorded as a liability on the statements of financial position. Subsequent to initial recognition, the liability is adjusted for discount amortization and revaluations of future payments to beneficiaries based on life expectancies, which are recognized as the change in value of split interest agreements on the statements of activities and changes in net assets. The remaining liability reverts to the Corporation upon death of the donor. The annuitants have designated that, on termination, the remaining principal of each Annuity Trust be transferred to either Part A or Part B of the Endowment Fund. Assets held in the charitable remainder trusts totaled \$1,964,014 and \$1,961,505 at December 31, 2014 and 2013, respectively, and are reported at fair value in the statements of financial position.
- The Charitable Remainder Unitrust Fund (Unitrust) consisted of a trust created in January 1999 by a resident with a donation of real property. This property was sold and the proceeds invested in marketable securities. The Corporation, as trustee, was required to pay nine percent of the fair value of the trust, computed annually, to the donor over the donor's lifetime. The contribution portion of the gift was recorded in the statements of activities and changes in net assets as the difference between the fair value of the trust assets and the present value of the estimated payments to be paid over the expected life of the donor. The entire principal reverted to the Corporation upon death of the donor, which occurred in February 2013.
- The Other Funds are comprised of various temporarily restricted contributions including the Alabaster Fund that consists of a contribution to be used for resident entertainment. The income earned and up to ten percent of the principal may be used annually in the Alabaster Fund.
- The Sinking Fund is comprised of 10% of entrance fees designated by the Board to be used for repaying debt.
- The Residents' Association is comprised of income from the ROSE shop and donations designated for use by the Association. Funds are used by the Association, through the Residents' Council and its committees, primarily to advance the welfare of residents.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 1 - Summary of significant accounting policies (continued)

Classes of net assets

The Corporation has classified the individual funds according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets are those net assets, which are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets are further categorized into undesignated and designated amounts. Undesignated net assets consist of the Manor's Operating Fund. Designated assets generally consist of the Endowment Fund Part B, the Sinking Fund, and the Residents' Association.

Temporarily restricted net assets are those net assets whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by the actions of the Board pursuant to those stipulations. Temporarily restricted net assets generally consist of donations to the Alabaster Fund, the Unitrust and the Annuity Trusts Fund.

Permanently restricted net assets are those net assets whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization. Permanently restricted net assets generally consist of donations to the Endowment Fund Part A.

Basis of accounting

The financial statements of the Corporation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Use of estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Concentration of credit risk

The Corporation maintains cash in brokerage accounts that are not insured by the Federal Deposit Insurance Corporation (FDIC). The Corporation maintains cash balances on deposit with banks that have exceeded the FDIC limit of \$250,000. The Corporation has not experienced any losses in such accounts. Management believes the Corporation is not exposed to significant credit risk relating to cash.

Cash equivalents

The Corporation considers all financial instruments with original maturities of three months or less when purchased to be cash equivalents.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 1 - Summary of significant accounting policies (continued)

Accounts receivable and allowance for doubtful accounts

Accounts receivable consists primarily of amounts due from residents for the monthly care fees and routine medical services and are stated at the amount the Corporation expects to collect. When necessary, the Corporation provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to the allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to accounts receivable. The Corporation has determined there is no need for an allowance for doubtful accounts at December 31, 2014 or 2013.

Investments

Investments in common stock, bond, equity and exchange traded funds are measured at fair value, which is the price that would be received if the investment was sold in an orderly transaction between market participants at the measurement date. Prana investments are valued at the amounts reported to the Corporation by Prana and the Corporation's investment advisors. These amounts are generally reported at face value, which the Corporation believes is a reasonable approximation of fair value. Realized and unrealized gains and losses (fair value fluctuation) are reflected in the statements of activities and changes in net assets.

Property and equipment

Property and equipment are stated at cost. Major additions, alterations, and improvements are capitalized. Repairs and maintenance are charged to expense as incurred. The cost and accumulated depreciation of items disposed of are removed from the accounts, and any gain or loss is included in the statements of activities and changes in net assets.

Depreciation is provided using the straight-line method at rates based on the estimated economic useful lives of the individual classes of assets.

Advances from applicants

Advances from applicants consist of deposits received from applicants who have not signed a continuing care contract as of December 31, 2014 and 2013.

Deferred income from entrance fees

Fees paid by a resident upon entering into a continuing care contract are recorded as deferred revenue and are amortized to income using the straight-line method over the estimated remaining life expectancy of the resident, adjusted annually based on the actuarially determined estimated remaining life expectancy of the resident.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 1 - Summary of significant accounting policies (continued)

Refund of entrance fees

After a ninety day period in which either the Corporation or the resident can cancel the contract without cause and up to approximately 5 years, the Corporation will generally refund to the resident shortly after the termination date of the contract the total amounts paid as the entrance fee less a charge of 1½ percent of the entrance fee for each month that the resident occupied the living accommodation. Based upon the Manor's history of issuing refunds, a refund reserve is not considered necessary as of December 31, 2014 and 2013. The total amount of entrance fees refundable, upon termination of the contract, is approximately \$10.1 million and \$8.6 million at December 31, 2014 and 2013, respectively.

Restricted and unrestricted revenue

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the same period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported on the statements of activities and changes in net assets as net assets released from restrictions.

Income tax and uncertain tax positions

The Corporation is organized and operated exclusively for charitable, religious and educational purposes and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Corporation adopted the accounting guidance for uncertainty in income taxes. The Corporation recognizes tax positions in the financial statements when it is more-likely-than-not the position will be sustained upon examination by the tax authorities. As of December 31, 2014 and 2013, the Corporation had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Corporation's tax returns are subject to examination by the Federal taxing authorities for a period of three years from the date they are filed and a period of four years for California taxing authorities.

Presentation of certain taxes

The Corporation collects sales and occupancy taxes and remits these amounts to applicable taxing authorities. The Corporation's accounting policy is to exclude these taxes from revenues and expenses.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 1 - Summary of significant accounting policies (continued)

Subsequent events

Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are available to be issued. The Corporation evaluates all subsequent events and transactions to determine whether any transaction needs to be recognized or disclosed. The Corporation has evaluated all subsequent events through April 27, 2015, which is the date the financial statements are available to be issued, and has determined no events or transactions need to be recognized or disclosed in these financial statements.

Note 2 - Investments

The Corporation's investment portfolio consists of the following:

	December 31	
	2014	2013
Mutual bond funds	\$ 11,467,098	\$ 11,411,773
Mutual equity funds	11,042,127	9,369,304
Exchange traded funds	-	492,651
Domestic stock	-	104,420
Prana Income Fund - Ten, LLC	1,100,000	1,650,000
Prana Realty Company 1 common stock	213,408	201,139
Total	<u>\$ 23,822,633</u>	<u>\$ 23,229,287</u>

The Corporation invested in unsecured notes issued by Prana Income Fund – Ten, LLC ("Prana"). Prana is a fund that makes loans to limited liability companies (LLC's) formed for the purpose of investing in residential real estate and mortgage loans presently located in New York and Los Angeles. Prana's loans to the LLC's are unsecured and the ability of the LLC's to repay the Prana loans (principal and interest) is dependent on their ability to generate profits from these properties. The Corporation will receive from Prana fixed interest at 6% payable quarterly and contingent interest at 2%, if any, based upon the results for the underlying assets in the fund. There is also bonus contingent interest at 45% of profits. The initial principal of the notes are repayable in 20% installments, due on December 31, 2012 and each December 31 thereafter until December 31, 2016. At December 31, 2014, the Corporation has 40% of the initial principal balance outstanding. These notes are not readily marketable, in part due to withdrawal restrictions placed by Prana on transferring the notes. Since there is no readily available market for these notes, they are valued at amounts reported to the Corporation by Prana and the Corporation's investment advisors, which approximates face value less any return of principal. The Corporation believes this is a reasonable approximation of fair value.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 2 - Investments (continued)

The Corporation purchased the common stock of Prana Reality Company I. (the Company) in an initial offering in 2007. The Company, through City Reality Partners I (the Partnership), originally acquired 9 and presently owns 10 apartment buildings in the Bronx, New York. The valuation of the class A common stock is determined by the management of the Company based upon the value of the real estate owned by the controlled Partnership of which the Company is the 99% owner and general partner. It is the Partnership's policy to obtain third party appraisals at least once every three years. In 2012 all of the properties were appraised by third party appraisers. From the appraisals, the valuation of real estate held by the Partnership is generally determined by using a multiplier factor applied to the gross rents of a particular property. Management evaluates changes in market conditions from appraisal date to year-end and adjusts the multiplier factor as needed. Share value is estimated as the net asset value divided by the number of outstanding shares at the valuation date. At December 31, 2014 and 2013, the Company has valued each share at \$142,272 and \$134,093, respectively. This investment is not readily marketable, in part due to withdrawal restrictions placed by Prana. Since 2009, Prana has paid out \$7.6 million in redemptions of the \$19 million raised. Rent rolls and market rents both increased during 2014 resulting in a 6% increase in share value and 8% cash distributions. The remaining 10 buildings were valued at \$28.6 million.

Note 3 - Fair value measurements

The Corporation adopted the provisions of fair value measurements which defines fair value, establishes a framework for measuring fair value and also expands the disclosures about fair value measurements. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1. Inputs are based on unadjusted quoted prices for identical assets in an active market the Corporation has the ability to access. Examples of these are investments in common stocks and mutual funds.

Level 2. Inputs are based on quoted prices in markets that are not active and other valuation methodologies or model inputs that are observable either directly or indirectly as of the measurement date. Examples of these investments include corporate and municipal bonds that trade infrequently.

Level 3. Inputs are based on prices or valuation techniques that are unobservable for the investment and include situations where there is little, if any, market activity. These inputs reflect assumptions of management about in pricing the investments or life expectancies. Examples of these investments are certain private equity investments and annuity obligations.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 3 - Fair value measurements (continued)

A summary of the assets and liabilities measured on a recurring basis at fair value, by level including the fair value hierarchy at December 31, 2014 and 2013, is as follows:

December 31, 2014				
	Total Fair Value	Level 1	Level 2	Level 3
Mutual bond funds				
Investment grade	\$ 10,370,403	\$10,370,403	\$ -	\$ -
Floating rate loans	1,078,219	1,078,219	-	-
U.S. Government	18,476	18,476	-	-
	<u>11,467,098</u>	<u>11,467,098</u>	<u>-</u>	<u>-</u>
Mutual equity funds				
Large Cap	5,016,896	5,016,896	-	-
International	4,452,644	4,452,644	-	-
Alternative investments	1,572,587	1,572,587	-	-
	<u>11,042,127</u>	<u>11,042,127</u>	<u>-</u>	<u>-</u>
Prana Income Fund - Ten, LLC	1,100,000	-	-	1,100,000
Prana Realty Company I	213,408	-	-	213,408
Cash surrender value of life insurance	391,714	-	-	391,714
	<u>391,714</u>	<u>-</u>	<u>-</u>	<u>391,714</u>
Total	<u>\$ 24,214,347</u>	<u>\$22,509,225</u>	<u>\$ -</u>	<u>\$1,705,122</u>
Liabilities				
Annuity obligations				
Annuity trusts	\$ 1,126,004	\$ -	\$ -	\$1,126,004
Post retirement obligation	172,879	-	-	172,879
	<u>172,879</u>	<u>-</u>	<u>-</u>	<u>172,879</u>
Total	<u>\$ 1,298,883</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,298,883</u>

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 3 - Fair value measurements (continued)

December 31, 2013				
	Total Fair Value	Level 1	Level 2	Level 3
Mutual bond funds				
Investment grade	\$ 10,457,852	\$10,457,852	\$ -	\$ -
International	843,351	843,351	-	-
U.S. Government	18,262	18,262	-	-
Fixed income	92,308	92,308	-	-
	<u>11,411,773</u>	<u>11,411,773</u>	<u>-</u>	<u>-</u>
Mutual equity funds				
Large Cap	4,559,407	4,559,407	-	-
International	3,303,676	3,303,676	-	-
Alternative investments	1,506,221	1,506,221	-	-
	<u>9,369,304</u>	<u>9,369,304</u>	<u>-</u>	<u>-</u>
Exchange traded funds				
International	492,651	492,651	-	-
Domestic stock	104,420	104,420	-	-
Prana Income Fund - Ten, LLC	1,650,000	-	-	1,650,000
Prana Realty Company I	201,139	-	-	201,139
Cash surrender value of life insurance	373,816	-	-	373,816
	<u>373,816</u>	<u>-</u>	<u>-</u>	<u>373,816</u>
Total	<u>\$ 23,603,103</u>	<u>\$21,378,148</u>	<u>\$ -</u>	<u>\$ 2,224,955</u>
Liabilities				
Annuity obligations				
Annuity trusts	\$ 1,104,930	\$ -	\$ -	\$ 1,104,930
Post retirement obligation	186,974	-	-	186,974
	<u>186,974</u>	<u>-</u>	<u>-</u>	<u>186,974</u>
Total	<u>\$ 1,291,904</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,291,904</u>

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 3 - Fair value measurements (continued)

Changes in Level 3 assets measured at fair value on a recurring basis

	December 31, 2013	Gains/ (Losses)	Purchases	Sales	December 31, 2014
Prana Income Fund - Ten, LLC	\$ 1,650,000	\$ -	\$ -	\$ (550,000)	\$ 1,100,000
Prana Realty Company I	201,139	12,269	-	-	213,408
Cash surrender value of life insurance	373,816	17,898	-	-	391,714
Total	<u>\$ 2,224,955</u>	<u>\$ 30,167</u>	<u>\$ -</u>	<u>\$ (550,000)</u>	<u>\$ 1,705,122</u>

	December 31, 2012	Gains/ (Losses)	Purchases	Sales	December 31, 2013
Prana Income Fund - Ten, LLC	\$ 2,200,000	\$ -	\$ -	\$ (550,000)	\$ 1,650,000
Prana Realty Company I	201,139	-	-	-	201,139
Cash surrender value of life insurance	358,175	15,641	-	-	373,816
Total	<u>\$ 2,759,314</u>	<u>\$ 15,641</u>	<u>\$ -</u>	<u>\$ (550,000)</u>	<u>\$ 2,224,955</u>

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 3 - Fair value measurements (continued)

Cash surrender value of life insurance

The Corporation is the owner and the beneficiary of an adjustable universal life insurance policy on the life of the former President of the Corporation. The fair value of this policy is considered equal to the cash surrender value. The cash surrender value is the amount the insurance company would pay upon cancellation of the policy which is calculated by the insurance company as the excess of premiums paid over cost of insurance and administrative fees plus interest earned at a competitive market rate with guaranteed minimum interest rate of 4%. The cash surrender value of the policy was \$391,714 and \$373,816 at December 31, 2014 and 2013, respectively.

Annuity obligations

On an annual basis, the Corporation revalues the liability to make distributions to the designated beneficiaries of the Annuity Trusts and the Unitrust based on actuarial assumptions. The present value of the estimated future payments for Annuity Trusts is calculated using a discount rate of 8% and the remaining life expectancy of the beneficiaries based on applicable mortality tables.

Post retirement obligation

The present value of the estimated future payments to the President of the Corporation is calculated using a discount rate of 6% and a retirement date in 2012.

Note 4 - Post retirement obligation

The Corporation entered into a contract with the former President of the Corporation in which he will serve as a consultant as may be required after he retired in 2012. He will receive an annual payment of \$25,000 for eleven years beginning in January 2013 for a total of \$275,000. If he dies or is disabled at any time before the full \$275,000 is paid, the remaining balance will be paid in full to his trust. Using a present value discount rate of 6% and a quarterly payment of \$6,250, the post-retirement obligation at December 31, 2014 is \$172,879 of which \$14,960 is included in accrued liabilities.

Note 5 - Related parties

Current board members are officers and/or owners of organizations that provide insurance and architectural services to the Manor.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 6 - Property and equipment

The major categories of property and equipment and accumulated depreciation thereon are as follows:

	December 31	
	2014	2013
Building and improvements	\$ 39,960,931	\$ 37,821,618
Hillcrest assisted living center	4,478,838	4,479,695
Medical center	5,009,817	5,009,817
Administrative and activity building	3,254,080	3,254,080
Pavement resurfacing	499,602	499,602
Sprinkler system and well	472,382	472,382
Septic drain	172,207	162,527
Furnishings and carpeting	458,397	456,944
Computer equipment	179,070	173,547
Furniture	1,714,198	1,647,357
Health center equipment	218,327	218,327
Kitchen equipment	506,005	480,209
Maintenance equipment	120,415	97,705
Artwork and collections	145,245	143,026
Miscellaneous equipment	320,833	442,684
Motor vehicles	441,990	441,990
Landscaping	903,541	814,518
Telephone equipment	452,372	452,372
Total depreciable property and equipment	59,308,250	57,068,400
Less accumulated depreciation	(25,551,054)	(23,671,647)
	33,757,196	33,396,753
Land	403,575	403,575
Construction in progress	353,141	1,104,983
Net property and equipment	<u>\$ 34,513,912</u>	<u>\$ 34,905,311</u>

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 7 - Long-term debt

Long-term debt consists of the following:

	December 31	
	2014	2013
Note payable with the 1st Capital Bank, secured by deed of trust, payable in monthly installments of \$25,081 for principal and fixed interest at 4.85% beginning February 5, 2012 and maturing on January 5, 2022, at which time a one time balloon payment estimated to be \$3,227,984 is due.	\$ 4,072,849	\$ 4,173,635
Less current portion	105,784	100,786
Long-term debt - net of current portion	<u>\$ 3,967,065</u>	<u>\$ 4,072,849</u>

Maturities on the long-term debt are as follows:

<u>Year Ending December 31</u>	
2015	\$ 105,784
2016	110,486
2017	116,510
2018	122,289
2019	128,353
Thereafter	<u>3,489,427</u>
Total	<u>\$ 4,072,849</u>

The note payable requires the Manor to comply with certain financial covenants, all of which were met at December 31, 2014 and 2013.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 8 - Long-term care commitment

The Corporation records a liability for the obligation to provide future services and the use of facilities to current residents when such costs are estimated to exceed anticipated revenues and the balance of unamortized entrance fees. Costs are comprised of per capita costs for all residents plus depreciation expense. The per capita costs are calculated based upon a four percent annual increase in costs multiplied by a life expectancy factor for each resident. Anticipated revenues from the few contracts for which there are no fee increases are calculated as current monthly fees multiplied by a life expectancy factor for each resident. Anticipated revenues for all other contracts are calculated as current monthly fees with a four percent annual increase multiplied by a life expectancy factor for each resident. The present value of future cash inflows and outflows is calculated with a discount rate of 6%. Depreciation expense is computed based upon expense per average number of residents multiplied by a total annuity factor for all residents. As of December 31, 2014 and 2013, future revenues were estimated to exceed costs to provide future services, therefore, no long-term care commitment liability is necessary.

Note 9 - Deferred income from entrance fees

The changes in the deferred income from entrance fees are as follows:

	December 31	
	2014	2013
Balance, beginning of year	\$ 24,677,670	\$ 27,156,459
New fees received	5,169,235	1,664,711
Recognition of fees	(3,641,350)	(3,879,524)
Refunds	(76,908)	(263,976)
Balance, end of year	<u>\$ 26,128,647</u>	<u>\$ 24,677,670</u>

Note 10 - Employee retirement plan

The Corporation has a section 403 (b) retirement savings plan. All full-time and part-time employees become eligible to participate in the Plan on their hire date. On-call employees, who work less than 1,000 hours a year, are not eligible to participate in the Plan.

The Manor may match a full-time employee's contribution dollar for dollar up to a maximum of 3% of a participant's compensation. To qualify for the employer discretionary matching contribution, the participant must be a full time employee for a continuous period of 2 years with no breaks in service. Part-time employees are not eligible for the employer discretionary matching contribution. The amount of matched contributions made by the Corporation was \$84,859 and \$88,579 in 2014 and 2013, respectively.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 11 - Temporarily restricted net assets

Temporarily restricted net assets consist of the following:

	December 31	
	2014	2013
Endowment Fund, Part A	\$ 2,405,771	\$ 2,450,578
Other Funds	57,780	55,269
Annuity Trusts Fund	838,010	856,575
Balance, end of year	<u>\$ 3,301,561</u>	<u>\$ 3,362,422</u>

Note 12 - Designated net assets

Designated net assets consist of the following:

	December 31	
	2014	2013
Endowment Fund, Part B	\$ 5,387,948	\$ 5,398,773
Sinking Fund	3,596,900	3,020,309
Residents' Association	82,120	59,042
Balance, end of year	<u>\$ 9,066,968</u>	<u>\$ 8,478,124</u>

Note 13 - Endowment

The Corporation's endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 13 - Endowment (continued)

Interpretation of relevant law

The Board of Directors of the Corporation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as enacted by California in 2008 as SB 1329, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the endowment fund not classified as permanently restricted net assets is classified as temporarily restricted or designated net assets until donor specified restrictions are met or those amounts are appropriated for expenditure by the Corporation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund.
2. The purposes of the Corporation and the donor-restricted endowment fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the organization.
7. The investment policies of the organization.

Investment return objectives and risk parameters

The Corporation has adopted investment and spending policies for the endowment fund. Under this policy, the endowment assets are invested in a manner that is intended to achieve the balanced accomplishment of current income with the growth and conservation of principal with interest and dividend income to be used to help meet operating expenses. At December 31, 2014, endowment investments are allocated as follows: 37% investment grade bonds, 57% U.S. equity funds, and 6% alternative investments. In managing risk within the endowment fund, the objective is to achieve total returns in excess of the average returns for an equity-tilted balance portfolio. Losses of 15% are tolerable.

Strategies employed for achieving objectives

The Corporation's investment strategy involves under and over weighting various asset classes based on an assessment of the risk and return potential specific to each asset class at any point in time.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 13 - Endowment (continued)

Spending policy and how the investment objectives relate to spending policy

The Corporation has a policy of appropriating for distribution each year five percent of the average closing market value of all Endowment Fund investments for the three preceding years to be available for general operating purposes. The five percent allocation on the permanently restricted endowment is distributed from the temporarily restricted endowment. The five percent may be adjusted up or down in the future in order to maintain a fiscally prudent program for distribution consistent with the Corporation's objective to grow and conserve principal in the endowment fund with interest and dividend income to be used to help meet the operating expenses, but not the non-operating requirements, of the Manor.

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Corporation to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2014 or 2013.

Endowment net asset composition by type of fund:

Assets	December 31, 2014			
	Permanently Restricted	Temporarily Restricted	Unrestricted Designated	Total
	Part A	Part A	Part B	
Cash	\$ -	\$ 12,536	\$ 10,636	\$ 23,172
Accounts receivable	-	214,831	182,269	397,100
Due (to) from other funds	-	-	1,930	1,930
Investments	3,939,796	2,178,404	5,193,113	11,311,313
Total assets	<u>\$3,939,796</u>	<u>\$2,405,771</u>	<u>\$5,387,948</u>	<u>\$11,733,515</u>

Assets	December 31, 2013			
	Permanently Restricted	Temporarily Restricted	Unrestricted Designated	Total
	Part A	Part A	Part B	
Cash	\$ -	\$ 167,933	\$ 141,906	\$ 309,839
Due (to) from other funds	-	-	(9,281)	(9,281)
Investments	3,939,796	2,282,645	5,266,148	11,488,589
Total assets	<u>\$3,939,796</u>	<u>\$2,450,578</u>	<u>\$5,398,773</u>	<u>\$11,789,147</u>

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 13 - Endowment (continued)

Changes in endowment net assets:

	Year Ended December 31, 2014			
	Permanently Restricted Part A	Temporarily Restricted Part A	Unrestricted Designated Part B	Total
Other income				
Investment income, net	\$ -	\$ 291,304	\$ 246,103	\$ 537,407
Contributions	-	-	25,154	25,154
Net realized and unrealized losses	-	(41,883)	(35,384)	(77,267)
Total other income	-	249,421	235,873	485,294
Net assets released from restrictions				
Endowment income distributions	-	(294,228)	(248,628)	(542,856)
Remainder of terminated annuity trusts	-	-	1,930	1,930
Total net assets released from restrictions	-	(294,228)	(246,698)	(540,926)
Change in net assets	-	(44,807)	(10,825)	(55,632)
Net assets, beginning of year	3,939,796	2,450,578	5,398,773	11,789,147
Net assets, end of year	<u>\$ 3,939,796</u>	<u>\$ 2,405,771</u>	<u>\$ 5,387,948</u>	<u>\$ 11,733,515</u>

	Year Ended December 31, 2013			
	Permanently Restricted Part A	Temporarily Restricted Part A	Unrestricted Designated Part B	Total
Other income				
Investment income, net	\$ -	\$ 199,784	\$ 148,880	\$ 348,664
Contributions	-	-	108,975	108,975
Net realized and unrealized gains	-	414,501	308,886	723,387
Total other income	-	614,285	566,741	1,181,026
Net assets released from restrictions				
Endowment income distributions	-	(299,223)	(222,981)	(522,204)
Remainder of terminated annuity trusts	-	-	534,548	534,548
Total net assets released from restrictions	-	(299,223)	311,567	12,344
Change in net assets	-	315,062	878,308	1,193,370
Net assets, beginning of year	3,939,796	2,135,516	4,520,465	10,595,777
Net assets, end of year	<u>\$ 3,939,796</u>	<u>\$ 2,450,578</u>	<u>\$ 5,398,773</u>	<u>\$ 11,789,147</u>

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 14 - Investment expenses

Expenses relating to investment income, including custodial fees and investment advisory fees, have been included in operating expenses for the Operating Fund and included in change in value of split-interest trusts for the Unitrust. Other investment expenses have been netted against investment income in the accompanying statements of activities and changes in net assets as follows:

	Year Ended December 31	
	2014	2013
Designated net assets		
Endowment Fund, Part B	\$ 20,087	\$ 17,259
Temporarily restricted net assets		
Endowment Fund, Part A	23,776	23,161
Annuity Trust Fund	7,639	7,346
Total	<u>\$ 51,502</u>	<u>\$ 47,766</u>

Note 15 - Supplemental disclosure of non-cash and financing activities

Purchases of property and equipment included in accounts payable were \$217,091 and \$196,521 in 2014 and 2013, respectively.

Note 16 - Health and Safety Code Section 1790 (A)(3) Disclosure

Improvements made during the year include (a) Landscaping of \$166,813 which consists of concrete replacement and artificial turf; (b) facility buildings of \$1,034,329 which consists of unit renovations and structural improvements to the Manor buildings; (c) carpets and floor coverings of \$19,752; (d) furniture and equipment of \$66,842 which consists of office furniture and window coverings; (e) septic tank of \$9,680 which consists of new septic tanks being installed in resident units; (f) computer accounting of \$44,784 which consists of computer and office equipment; (g) kitchen equipment of \$25,797; (h) maintenance equipment of \$31,208 which consists of fans, pumps and a new water conditioning system; (i) artwork of \$2,219; (j) miscellaneous equipment of \$5,010 and (k) construction in progress of \$353,142 which consists of unit renovations.

These improvements are necessary and consistent with the Manor's tax exempt purpose to maintain and provide facilities to meet the housing, health care and other needs of their residents.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 17 - Contingency

The Manor is currently involved in discussions with a third party who alleges that prior to 2012, the Manor engaged in unfair business practices in connection with certain construction work at the Manor, including the alleged failure to obtain building permits and the alleged failure to comply with certain environmental laws and regulations. The Manor is assessing the merits of the allegations and negotiating with all parties involved, with the intent of resolving the matter. The resolution, if it occurs, would involve the payment of an amount which would not impair the Manor's ability to continue to provide service to its residents, and which may be partially recouped from others.

Independent Auditor's Report on Accompanying Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information on pages 27 through 36 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting records and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information to the underlying accounting records and other records, used to prepare the financial statements or to the financial statements themselves, and other auditing procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

The logo for PKF, consisting of the letters 'PKF' in a stylized, handwritten-style font.

Certified Public Accountants
A Professional Corporation

April 27, 2015
San Francisco, California

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.
Temporarily Restricted Net Assets Combining Schedule

	December 31, 2014			December 31, 2013					
	Endowment Part A	Other Funds	Annuity Trusts	Total	Endowment Part A	Other Funds	Unitrust	Annuity Trusts	Total
Assets									
Cash	\$ 12,536	\$ -	\$ 75,859	\$ 88,395	\$ 167,933	\$ -	\$ -	\$ 88,707	\$ 256,640
Accounts receivable	214,831	-	-	214,831	-	-	-	-	-
Due (to) from other funds	-	57,780	(2,240)	55,540	-	55,269	-	20,105	75,374
Total current assets	227,367	57,780	73,619	358,766	167,933	55,269	-	108,812	332,014
Investments	2,178,404	-	1,890,395	4,068,799	2,282,645	-	-	1,852,693	4,135,338
Total assets	\$ 2,405,771	\$ 57,780	\$ 1,964,014	\$ 4,427,565	\$ 2,450,578	\$ 55,269	\$ -	\$ 1,961,505	\$ 4,467,352
Liabilities and Net Assets									
Liabilities									
Annuity obligations	\$ -	\$ -	\$ 1,126,004	\$ 1,126,004	\$ -	\$ -	\$ -	\$ 1,104,930	\$ 1,104,930
Temporarily restricted net assets	2,405,771	57,780	838,010	3,301,561	2,450,578	55,269	-	856,575	3,362,422
Total liabilities and net assets	\$ 2,405,771	\$ 57,780	\$ 1,964,014	\$ 4,427,565	\$ 2,450,578	\$ 55,269	\$ -	\$ 1,961,505	\$ 4,467,352

	Year Ended December 31, 2014				Year Ended December 31, 2013				
	Endowment Part A	Other Funds	Annuity Trusts	Total	Endowment Part A	Other Funds	Unitrust	Annuity Trusts	Total
Other income									
Investment income	\$ 291,304	\$ 316	\$ 47,413	\$ 339,033	\$ 199,784	\$ 441	\$ -	\$ 50,645	\$ 250,870
Contributions	-	-	115,354	115,354	-	-	-	102,679	102,679
Net realized and unrealized gains (losses)	(41,883)	2,195	28,275	(11,413)	414,501	5,449	-	51,137	471,087
Change in value of split-interest trusts									
Revaluation of trust obligations	-	-	(207,677)	(207,677)	-	-	92,465	(10,654)	81,811
Total other income (loss)	249,421	2,511	(16,635)	235,297	614,285	5,890	92,465	193,807	906,447
Net assets released from restrictions									
Endowment income distribution	(294,228)	-	-	(294,228)	(299,223)	-	-	-	(299,223)
Remainder of terminated annuity trusts	-	-	(1,930)	(1,930)	-	-	(388,778)	(145,770)	(534,548)
Satisfaction of program restrictions									
Entertainment	-	-	-	-	-	(1,525)	-	-	(1,525)
Purchase of property and equipment	-	-	-	-	-	-	-	-	-
Total released from restrictions	(294,228)	-	(1,930)	(296,158)	(299,223)	(1,525)	(388,778)	(145,770)	(835,296)
Change in net assets	(44,807)	2,511	(18,565)	(60,861)	315,062	4,365	(296,313)	48,037	71,151
Net assets, beginning of year	2,450,578	55,269	856,575	3,362,422	2,135,516	50,904	296,313	808,538	3,291,271
Net assets, end of year	\$ 2,405,771	\$ 57,780	\$ 838,010	\$ 3,301,561	\$ 2,450,578	\$ 55,269	\$ -	\$ 856,575	\$ 3,362,422

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Designated Net Assets Combining Schedule

	December 31, 2014				December 31, 2013			
	Endowment Part B	Sinking Fund	Residents' Association	Total	Endowment Part B	Sinking Fund	Residents' Association	Total
Assets								
Cash	\$ 10,636	\$ 18,515	\$ 63,644	\$ 92,795	\$ 141,906	\$ 9,043	\$ 40,780	\$ 191,729
Accounts receivable	182,269	-	-	182,269	-	-	-	-
Due (to) from other funds	1,930	43,460	-	45,390	(9,281)	(10,000)	-	(19,281)
Total current assets	194,835	61,975	63,644	320,454	132,625	(957)	40,780	172,448
Investments	5,193,113	3,534,925	18,476	8,746,514	5,266,148	3,021,266	18,262	8,305,676
Total assets	\$ 5,387,948	\$ 3,596,900	\$ 82,120	\$ 9,066,968	\$ 5,398,773	\$ 3,020,309	\$ 59,042	\$ 8,478,124
Liabilities and Net Assets								
Designated net assets	\$ 5,387,948	\$ 3,596,900	\$ 82,120	\$ 9,066,968	\$ 5,398,773	\$ 3,020,309	\$ 59,042	\$ 8,478,124
Total liabilities and net assets	\$ 5,387,948	\$ 3,596,900	\$ 82,120	\$ 9,066,968	\$ 5,398,773	\$ 3,020,309	\$ 59,042	\$ 8,478,124

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Designated Net Assets Combining Schedule

	Year Ended December 31, 2014				Year Ended December 31, 2013			
	Endowment Part B	Sinking Fund	Residents' Association	Total	Endowment Part B	Sinking Fund	Residents' Association	Total
Income from operations	\$ -	\$ -	\$ 32,181	\$ 32,181	\$ -	\$ -	\$ 31,369	\$ 31,369
Other income (loss)								
Investment income, net	246,103	101,335	111	347,549	148,880	76,369	107	225,356
Contributions	25,154	-	38,194	63,348	108,975	-	30,033	139,008
Net realized and unrealized gains (losses)	(35,384)	(41,668)	103	(76,949)	308,886	(88,243)	(170)	220,473
Total other income (loss)	235,873	59,667	38,408	333,948	566,741	(11,874)	29,970	584,837
Net assets released from restrictions								
Endowment income	(248,628)	-	-	(248,628)	(222,981)	-	-	(222,981)
Remainder of terminated annuity trusts	1,930	-	-	1,930	534,548	-	-	534,548
Board designated transfers	-	516,924	(47,511)	469,413	-	(318,603)	(50,363)	(368,966)
Total released from restrictions	(246,698)	516,924	(47,511)	222,715	311,567	(318,603)	(50,363)	(57,399)
Change in net assets	(10,825)	576,591	23,078	588,844	878,308	(330,477)	10,976	558,807
Net assets, beginning of year	5,398,773	3,020,309	59,042	8,478,124	4,520,465	3,350,786	48,066	7,919,317
Net assets, end of year	\$ 5,387,948	\$ 3,596,900	\$ 82,120	\$ 9,066,968	\$ 5,398,773	\$ 3,020,309	\$ 59,042	\$ 8,478,124

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Residential Care

	Year Ended December 31	
	2014	2013
Income		
Resident care fees	\$ 8,267,309	\$ 8,603,097
Entrance fees	3,641,350	3,879,524
Other resident services and operating income		
Guest meals	111,591	108,671
Guest rooms	89,480	86,031
Physical therapy	91,372	33,300
Miscellaneous	92,798	85,170
Total income	12,293,900	12,795,793
Departmental expenses (page 34)	8,632,454	8,642,266
Departmental income	<u>\$ 3,661,446</u>	<u>\$ 4,153,527</u>

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Departmental Expenses

Residential Care

	Year Ended December 31	
	2014	2013
Food service		
Salaries and wages	\$ 1,258,922	\$ 1,242,251
Payroll taxes and benefits	686,491	652,748
Food cost	680,003	664,832
Contract maintenance	6,891	4,392
Supplies	73,975	76,021
Uniforms	15,667	18,156
Miscellaneous	8,284	7,812
	<u>2,730,233</u>	<u>2,666,212</u>
Intermediate care		
Salaries and wages	413,087	421,980
Payroll taxes and benefits	183,674	193,264
Supplies	16,762	21,628
Laundry	19,800	19,800
Miscellaneous	8,788	32,954
	<u>642,111</u>	<u>689,626</u>
Housekeeping		
Salaries and wages	369,333	364,889
Payroll taxes and benefits	232,052	215,312
Supplies	29,187	40,884
Uniforms	2,056	3,676
Miscellaneous	24,594	27,381
	<u>657,222</u>	<u>652,142</u>
Laundry & Linen		
Salaries and wages	62,299	67,893
Payroll taxes and benefits	43,290	42,116
Supplies	12,168	11,333
Allocation	(61,800)	(61,800)
Miscellaneous	5,550	5,534
	<u>61,507</u>	<u>65,076</u>
Total (carried over)	<u>\$ 4,091,073</u>	<u>\$ 4,073,056</u>

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Departmental Expenses (Continued)

Residential Care

	Year Ended December 31	
	2014	2013
Total (carried over)	<u>\$ 4,091,073</u>	<u>\$ 4,073,056</u>
Grounds and garden		
Salaries and wages	231,080	223,731
Payroll taxes and benefits	94,021	88,150
Contract maintenance	13,070	12,010
Supplies	4,772	18,262
Trees, shrubs, seeds	33,575	48,901
Uniforms	-	1,787
Maintenance	5,020	9,351
Miscellaneous	<u>195</u>	<u>63</u>
	<u>381,733</u>	<u>402,255</u>
General maintenance		
Salaries and wages	502,865	464,708
Payroll taxes and benefits	183,086	169,896
Contract maintenance	77,362	79,890
Supplies	226,516	300,143
Uniforms	4,909	5,619
Utilities	717,785	697,065
Telephone equipment rental	47,795	62,959
Cable television	50,782	38,789
Miscellaneous	<u>5,265</u>	<u>6,363</u>
	<u>1,816,365</u>	<u>1,825,432</u>
Transportation		
Salaries and wages	73,589	76,523
Payroll taxes and benefits	27,623	26,569
Gas and oil	14,646	15,067
Maintenance	10,424	5,857
Miscellaneous	<u>4,719</u>	<u>5,433</u>
	<u>131,001</u>	<u>129,449</u>
Resident medical plans		
Medical care	36,699	31,979
Hospital care	<u>5,966</u>	<u>24,688</u>
	<u>42,665</u>	<u>56,667</u>
Total (carried over)	<u><u>\$ 6,462,837</u></u>	<u><u>\$ 6,486,859</u></u>

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Departmental Expenses (Continued)

Residential Care

	Year Ended December 31	
	2014	2013
Total (carried over)	\$ 6,462,837	\$ 6,486,859
Marketing		
Salaries and wages	75,664	79,828
Payroll taxes and benefits	27,436	21,437
Advertising	149,928	106,108
Miscellaneous	-	19,466
	253,028	226,839
PBX		
Salaries and wages	127,257	125,521
Payroll taxes and benefits	59,106	54,604
Miscellaneous	3,366	1,197
	189,729	181,322
General and administrative		
Salaries - management	591,173	530,624
Payroll taxes and benefits	109,236	90,424
Employee medical claims	-	9,181
Contract maintenance	60,518	24,427
Supplies	31,597	29,761
Conferences and meetings	27,634	27,921
Dues and subscriptions	30,819	27,204
Pension plan	84,460	88,579
Insurance - fire and general	181,776	167,301
Investment management fee	26,497	23,765
Legal fees	187,923	297,189
Accounting fees	88,821	99,714
Consulting and professional services	3,880	89,574
Property taxes	7,808	4,184
Software fees	60,936	45,359
Licenses and permits	28,809	19,879
Bad debt	53,600	-
Miscellaneous	82,413	104,410
	1,657,900	1,679,496
Fitness center		
Salaries and wages	15,706	14,383
Payroll taxes and benefits	2,172	1,858
Supplies	827	879
Maintenance	2,042	267
Miscellaneous	702	-
	21,449	17,387
Residents' association	47,511	50,363
Total departmental expenses	\$ 8,632,454	\$ 8,642,266

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Medical Center

	Year Ended December 31	
	2014	2013
Income		
Routine services		
Patient supplies	\$ 55,610	\$ 73,761
Total routine services	55,610	73,761
Residential care fees allocated to routine services	1,338,590	1,310,395
Total income	1,394,200	1,384,156
Departmental expenses (page 36)	3,526,043	3,485,888
Departmental loss	\$ (2,131,843)	\$ (2,101,732)

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Departmental Expenses

Medical Center

	Year Ended December 31	
	2014	2013
Food service		
Salaries and wages	\$ 245,715	\$ 231,964
Food	127,627	121,512
	<u>373,342</u>	<u>353,476</u>
Housekeeping		
Salaries and wages	51,172	48,254
Payroll taxes and benefits	7,771	6,837
Supplies	15,137	18,461
Laundry	42,000	42,000
Miscellaneous	19,604	20,012
	<u>135,684</u>	<u>135,564</u>
General maintenance		
Utilities	108,603	102,999
Repairs and maintenance	-	741
	<u>108,603</u>	<u>103,740</u>
Nursing services		
Salaries and wages	1,444,823	1,435,126
Payroll taxes and benefits	539,280	500,637
Supplies	26,929	34,603
Miscellaneous	3,198	2,966
	<u>2,014,230</u>	<u>1,973,332</u>
General and administrative		
Salaries and wages	240,597	215,845
Payroll taxes and benefits	68,017	52,695
Medical director fee	48,000	48,000
Patient supplies	26,100	40,386
Pharmacy	9,760	19,418
Contract maintenance	19,606	30,152
Miscellaneous	27,418	36,018
	<u>439,498</u>	<u>442,514</u>
Clinic		
Salaries and wages	361,994	372,836
Payroll taxes and benefits	70,653	79,775
Pharmacy	1,593	2,859
Supplies	3,249	6,090
Miscellaneous	17,197	15,702
	<u>454,686</u>	<u>477,262</u>
Total medical center departmental expenses	<u>\$ 3,526,043</u>	<u>\$ 3,485,888</u>

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CONTINUING CARE
CONTRACTS BRANCH

NORTHERN CALIFORNIA
CONGREGATIONAL
RETIREMENT HOMES, INC.

CONTINUING CARE CONTRACT
PROGRAM ANNUAL REPORT
DECEMBER 31, 2014

PKF

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

December 31, 2014

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FORM 1-1
RESIDENT POPULATION

<u>Line</u>	<u>Continuing Care Residents</u>	<u>TOTAL</u>
[1]	Number at beginning of fiscal year	219
[2]	Number at end of fiscal year	223
[3]	Total Lines 1 and 2	442
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	221
All Residents		
[6]	Number at beginning of fiscal year	219
[7]	Number at end of fiscal year	223
[8]	Total Lines 6 and 7	442
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	221
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places).	1.00

FORM 1-2
ANNUAL PROVIDER FEE

<u>Line</u>		<u>TOTAL</u>
[1]	Total Operating Expenses (including depreciation and debt service - interest only)	\$14,513,738
[a]	Depreciation	\$2,150,975
[b]	Debt Service (Interest Only)	\$204,266
[2]	Subtotal (add Line 1a and 1b)	\$2,355,241
[3]	Subtract Line 2 from Line 1 and enter result.	\$12,158,497
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)	100%
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	\$12,158,497
		x .001
[6]	Total Amount Due (multiply Line 5 by .001)	\$12,158

PROVIDER NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC
COMMUNITY CARMEL VALLEY MANOR

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Certification by Chief Executive Officer

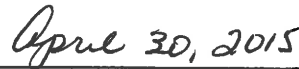
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CONTINUING CARE
CONTRACTS BRANCH

To the best of my knowledge, the accompanying Report on Examination of Continuing Care Reserve Report as of December 31, 2014 and Report on Audit of the Financial Statements and Supplementary Information for the year ended December 31, 2014 are correct. The life care contract form in use for new residents has been approved by the Department of Social Services. The required liquid reserve is properly maintained as of December 31, 2014. A refund reserve is not required.



Ms. Jane S. Ipsen
President and CEO



Date

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC

Insurance Coverage

December 31, 2014

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CONTINUING CARE
CONTRACTS BRANCH

Type	Crime
Coverage	\$1,000,000 for Employee Dishonesty \$1,000,000 for Forgery \$1,000,000 for Other Fraud
Company	Federal Insurance Company
Type	Directors and Officers Liability
Coverage	\$5,000,000
Company	Continental Casualty Company

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CONTINUING CARE
CONTRACTS BRANCH

NORTHERN CALIFORNIA
CONGREGATIONAL
RETIREMENT HOMES, INC.

FINANCIAL STATEMENTS
AND ACCOMPANYING INFORMATION
DECEMBER 31, 2014

PKF

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC

December 31, 2014

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Accountants and
business advisers

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Independent Auditor's Report

Board of Directors
Northern California Congregational
Retirement Homes, Inc.
Carmel, California

We have audited the accompanying State of California Department of Social Services Continuing Care Contract Program Continuing Care Reserve Report (Reports) of Northern California Congregational Retirement Homes, Inc. as of December 31, 2014.

Management's Responsibility for the Continuing Care Reserve Report (Reports)

Management is responsible for the preparation and fair presentation of the Reports in accordance with the report preparation provisions of the California Health and Safety Code Section 1792; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Reports that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Reports based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Reports are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Reports. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Reports, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Reports in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Reports.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Reports presents fairly, in all material respects, the liquid reserve requirements of Northern California Congregational Retirement Homes, Inc. at December 31, 2014, in conformity with the report preparation provisions of California Health and Safety Code Section 1792.

PKF, Certified Public Accountants, A Professional Corporation.

425 California Street, Suite 1600, San Francisco, California 94104 Telephone (415) 421-5378 Facsimile (415) 956-7708
Email: pkf@pkfsf.com | Website: www.pkfcalifornia.com

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Independent Auditor's Report (Continued)

Emphasis of Matter

The Reports were prepared for the purpose of complying with California Health and Safety code section 1972 and are not intended to be a complete presentation of the Company's assets, liabilities, revenues and expenses.

Restriction on Use

This report is intended solely for the information and use of the board of directors and management of Northern California Congregational Retirement homes, Inc. and for the filing with the State of California Department of Social Services and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

PKF

Certified Public Accountants
A Professional Corporation

April 27, 2015

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Statements of Financial Position

	December 31, 2014						December 31, 2013					
	Unrestricted		Total	Temporarily Restricted	Permanently Restricted	Total	Unrestricted		Total	Temporarily Restricted	Permanently Restricted	Total
	Undesignated	Designated					Undesignated	Designated				
Assets												
Cash	\$ 2,587,443	\$ 92,795	\$ 2,680,238	\$ 88,395	\$ -	\$ 2,768,633	\$ 1,278,948	\$ 191,729	\$ 1,470,677	\$ 256,640	\$ -	\$ 1,727,317
Accounts receivable	237,620	182,269	419,889	214,831	-	634,720	240,544	-	240,544	-	-	240,544
Due (to) from other funds	(100,930)	45,390	(55,540)	55,540	-	-	(56,093)	(19,281)	(75,374)	75,374	-	-
Prepaid expenses	161,948	-	161,948	-	-	161,948	135,184	-	135,184	-	-	135,184
Total current assets	2,886,081	320,454	3,206,535	358,766	-	3,565,301	1,598,583	172,448	1,771,031	332,014	-	2,103,045
Investments	7,067,524	8,746,514	15,814,038	4,068,799	3,939,796	23,822,633	6,848,477	8,305,676	15,154,153	4,135,338	3,939,796	23,229,287
Property and equipment - net of accumulated depreciation	34,513,912	-	34,513,912	-	-	34,513,912	34,905,311	-	34,905,311	-	-	34,905,311
Cash surrender value of life insurance	391,714	-	391,714	-	-	391,714	373,816	-	373,816	-	-	373,816
Total assets	\$ 44,859,231	\$ 9,066,968	\$ 53,926,199	\$ 4,427,565	\$ 3,939,796	\$ 62,293,560	\$ 43,726,187	\$ 8,478,124	\$ 52,204,311	\$ 4,467,352	\$ 3,939,796	\$ 60,611,459
Liabilities and Net Assets												
Accounts payable	\$ 412,363	\$ -	\$ 412,363	\$ -	\$ -	\$ 412,363	\$ 493,967	\$ -	\$ 493,967	\$ -	\$ -	\$ 493,967
Accrued liabilities	671,497	-	671,497	-	-	671,497	589,391	-	589,391	-	-	589,391
Current portion of long-term debt	105,784	-	105,784	-	-	105,784	100,786	-	100,786	-	-	100,786
Total current liabilities	1,189,644	-	1,189,644	-	-	1,189,644	1,184,144	-	1,184,144	-	-	1,184,144
Advances from applicants	926,850	-	926,850	-	-	926,850	737,915	-	737,915	-	-	737,915
Long-term debt - net of current portion	3,967,065	-	3,967,065	-	-	3,967,065	4,072,849	-	4,072,849	-	-	4,072,849
Deferred income from entrance fees	26,128,647	-	26,128,647	-	-	26,128,647	24,677,670	-	24,677,670	-	-	24,677,670
Annuity obligations	-	-	-	1,126,004	-	1,126,004	-	-	-	1,104,930	-	1,104,930
Post retirement obligation	157,920	-	157,920	-	-	157,920	172,879	-	172,879	-	-	172,879
Total liabilities	32,370,126	-	32,370,126	1,126,004	-	33,496,130	30,845,457	-	30,845,457	1,104,930	-	31,950,387
Net assets												
Unrestricted												
Undesignated	12,489,105	-	12,489,105	-	-	12,489,105	12,880,730	-	12,880,730	-	-	12,880,730
Designated	-	9,066,968	9,066,968	-	-	9,066,968	-	8,478,124	8,478,124	-	-	8,478,124
Temporarily restricted	-	-	-	3,301,561	-	3,301,561	-	-	-	3,362,422	-	3,362,422
Permanently restricted	-	-	-	-	3,939,796	3,939,796	-	-	-	-	3,939,796	3,939,796
Total net assets	12,489,105	9,066,968	21,556,073	3,301,561	3,939,796	28,797,430	12,880,730	8,478,124	21,358,854	3,362,422	3,939,796	28,661,072
Total liabilities and net assets	\$ 44,859,231	\$ 9,066,968	\$ 53,926,199	\$ 4,427,565	\$ 3,939,796	\$ 62,293,560	\$ 43,726,187	\$ 8,478,124	\$ 52,204,311	\$ 4,467,352	\$ 3,939,796	\$ 60,611,459

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Statements of Activities and Changes in Net Assets

	Year Ended December 31, 2014					Year Ended December 31, 2013						
	Unrestricted		Total	Temporarily	Permanently		Unrestricted		Total	Temporarily	Permanently	
	Undesignated	Designated	Unrestricted	Restricted	Restricted	Total	Undesignated	Designated	Unrestricted	Restricted	Restricted	Total
Income from operations												
Resident care fees	\$ 8,267,309	\$ -	\$ 8,267,309	\$ -	\$ -	\$ 8,267,309	\$ 8,603,097	\$ -	\$ 8,603,097	\$ -	\$ -	\$ 8,603,097
Entrance fees	3,641,350	-	3,641,350	-	-	3,641,350	3,879,524	-	3,879,524	-	-	3,879,524
Medical Center routine services	1,394,200	-	1,394,200	-	-	1,394,200	1,384,156	-	1,384,156	-	-	1,384,156
Other resident services and operating income	385,241	32,181	417,422	-	-	417,422	313,172	31,369	344,541	-	-	344,541
Total income from operations	13,688,100	32,181	13,720,281	-	-	13,720,281	14,179,949	31,369	14,211,318	-	-	14,211,318
Other income (loss)												
Interest and dividends	357,135	347,549	704,684	339,033	-	1,043,717	236,946	225,356	462,302	250,870	-	713,172
Net realized and unrealized gains (losses)	(41,065)	(76,949)	(118,014)	(11,413)	-	(129,427)	425,311	220,473	645,784	471,087	-	1,116,871
Processing fees	7,150	-	7,150	-	-	7,150	3,400	-	3,400	-	-	3,400
Contributions	37,350	63,348	100,698	115,354	-	216,052	71,900	139,008	210,908	102,679	-	313,587
Change in value of split-interest trusts	-	-	-	(207,677)	-	(207,677)	-	-	-	81,811	-	81,811
Total other income	360,570	333,948	694,518	235,297	-	929,815	737,557	584,837	1,322,394	906,447	-	2,228,841
Net assets released from restrictions												
Endowment income distribution	542,856	(248,628)	294,228	(294,228)	-	-	522,204	(222,981)	299,223	(299,223)	-	-
Remainder of terminated annuity trusts	-	1,930	1,930	(1,930)	-	-	-	534,548	534,548	(534,548)	-	-
Satisfaction of program restrictions	-	-	-	-	-	-	1,525	-	1,525	(1,525)	-	-
Board designated transfers	(469,413)	469,413	-	-	-	-	368,966	(368,966)	-	-	-	-
Total released from restrictions	73,443	222,715	296,158	(296,158)	-	-	892,695	(57,399)	835,296	(835,296)	-	-
Total revenue and other support	14,122,113	588,844	14,710,957	(60,861)	-	14,650,096	15,810,201	558,807	16,369,008	71,151	-	16,440,159
Expenses												
Operating												
Residential care	8,632,454	-	8,632,454	-	-	8,632,454	8,642,266	-	8,642,266	-	-	8,642,266
Medical Center	3,526,043	-	3,526,043	-	-	3,526,043	3,485,888	-	3,485,888	-	-	3,485,888
Interest	204,266	-	204,266	-	-	204,266	224,772	-	224,772	-	-	224,772
Depreciation	2,150,975	-	2,150,975	-	-	2,150,975	2,034,516	-	2,034,516	-	-	2,034,516
Total expenses	14,513,738	-	14,513,738	-	-	14,513,738	14,387,442	-	14,387,442	-	-	14,387,442
Change in net assets	(391,625)	588,844	197,219	(60,861)	-	136,358	1,422,759	558,807	1,981,566	71,151	-	2,052,717
Net assets, beginning of year	12,880,730	8,478,124	21,358,854	3,362,422	3,939,796	28,661,072	11,457,971	7,919,317	19,377,288	3,291,271	3,939,796	26,608,355
Net assets, end of year	\$ 12,489,105	\$ 9,066,968	\$ 21,556,073	\$ 3,301,561	\$ 3,939,796	\$ 28,797,430	\$ 12,880,730	\$ 8,478,124	\$ 21,358,854	\$ 3,362,422	\$ 3,939,796	\$ 28,661,072

See notes to the financial statements

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Statements of Cash Flows

	Year Ended December 31, 2014					Year Ended December 31, 2013					
	Unrestricted		Total	Temporarily	Permanently	Unrestricted		Total	Temporarily	Permanently	Total
	Undesignated	Designated	Unrestricted	Restricted	Restricted	Undesignated	Designated	Unrestricted	Restricted	Restricted	
Cash flows from operating activities											
Revenues											
Resident care fees	\$ 8,267,309	\$ -	\$ 8,267,309	\$ -	\$ -	\$ 8,267,309	\$ 8,603,097	\$ -	\$ 8,603,097	\$ -	\$ 8,603,097
Entrance fees	5,358,170	-	5,358,170	-	-	5,358,170	1,590,120	-	1,590,120	-	1,590,120
Medical Center routine services	1,394,200	-	1,394,200	-	-	1,394,200	1,384,156	-	1,384,156	-	1,384,156
Other resident services and operating income	366,663	32,181	398,844	-	-	398,844	338,609	31,369	369,978	-	369,978
Interest and dividends	345,778	339,717	685,495	-	-	685,495	237,387	225,356	462,743	-	462,743
Processing fees	7,150	-	7,150	-	-	7,150	3,400	-	3,400	-	3,400
Contributions	69,050	63,194	132,244	-	-	132,244	17,479	139,008	156,487	-	156,487
Net assets released from restrictions	115,768	167,325	283,093	-	-	283,093	748,419	(616,614)	131,805	-	131,805
Total revenues	15,924,088	602,417	16,526,505	-	-	16,526,505	12,922,667	(220,881)	12,701,786	-	12,701,786
Expenses											
Cash paid for operating expenses	(12,172,595)	-	(12,172,595)	-	-	(12,172,595)	(11,822,793)	-	(11,822,793)	-	(11,822,793)
Interest paid	(204,681)	-	(204,681)	-	-	(204,681)	(225,168)	-	(225,168)	-	(225,168)
Total expenses	(12,377,276)	-	(12,377,276)	-	-	(12,377,276)	(12,047,961)	-	(12,047,961)	-	(12,047,961)
Net cash provided by (used in) operating activities	3,546,812	602,417	4,149,229	-	-	4,149,229	874,706	(220,881)	653,825	-	653,825
Cash flows from investing activities											
Proceeds from sale of investments	2,122,093	2,485,928	4,608,021	2,826,902	-	7,434,923	1,368,128	1,403,063	2,771,191	2,414,867	5,186,058
Purchase of investments	(2,550,009)	(3,177,999)	(5,728,008)	(2,948,495)	-	(8,676,503)	(1,655,329)	(4,518,266)	(6,173,595)	(1,725,612)	(7,899,207)
Purchase of property and equipment	(1,632,707)	-	(1,632,707)	-	-	(1,632,707)	(2,313,801)	-	(2,313,801)	-	(2,313,801)
Net cash provided by (used in) investing activities	(2,060,623)	(692,071)	(2,752,694)	(121,593)	-	(2,874,287)	(2,601,002)	(3,115,203)	(5,716,205)	689,255	(5,026,950)
Cash flows from financing activities											
Repayment of long-term debt	(100,786)	-	(100,786)	-	-	(100,786)	(593,911)	-	(593,911)	-	(593,911)
Restricted contributions	-	-	-	162,538	-	162,538	-	-	-	76,423	76,423
Investment income restricted for reinvestment	-	-	-	340,275	-	340,275	-	-	-	268,342	268,342
Investment income released from restrictions	-	-	-	(294,229)	-	(294,229)	-	-	-	(299,224)	(299,224)
Payment of annuity obligations	-	-	-	(264,516)	-	(264,516)	-	-	-	(273,014)	(273,014)
Repayment of entrance fees	(76,908)	-	(76,908)	-	-	(76,908)	(326,858)	-	(326,858)	-	(326,858)
(Payment) receipt of remainder interest in annuity trusts	-	(9,280)	(9,280)	9,280	-	-	-	543,829	543,829	(408,384)	135,445
Net cash provided by (used in) financing activities	(177,694)	(9,280)	(186,974)	(46,652)	-	(233,626)	(920,769)	543,829	(376,940)	(635,857)	(1,012,797)
Net increase (decrease) in cash	1,308,495	(98,934)	1,209,561	(168,245)	-	1,041,316	(2,647,065)	(2,792,255)	(5,439,320)	53,398	(5,385,922)
Cash, beginning of year	1,278,948	191,729	1,470,677	256,640	-	1,727,317	3,926,013	2,983,984	6,909,997	203,242	7,113,239
Cash, end of year	\$ 2,587,443	\$ 92,795	\$ 2,680,238	\$ 88,395	\$ -	\$ 2,768,633	\$ 1,278,948	\$ 191,729	\$ 1,470,677	\$ 256,640	\$ 1,727,317

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Statements of Cash Flows (Continued)

	Year Ended December 31, 2014						Year Ended December 31, 2013					
	Unrestricted		Total	Temporarily Restricted	Permanently Restricted	Total	Unrestricted		Total	Temporarily Restricted	Permanently Restricted	Total
	Undesignated	Designated					Undesignated	Designated				
Reconciliation of change in net assets to net cash provided by operating activities												
Change in net assets	\$ (391,625)	\$ 588,844	\$ 197,219	\$ (60,861)	\$ -	\$ 136,358	\$ 1,422,759	\$ 558,807	\$ 1,981,566	\$ 71,151	\$ -	\$ 2,052,717
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities												
Restricted income and expense	-	-	-	89,755	-	89,755	-	-	-	501,388	-	501,388
Depreciation	2,150,975	-	2,150,975	-	-	2,150,975	2,034,516	-	2,034,516	-	-	2,034,516
Bad debt expense	53,600	-	53,600	-	-	53,600	-	-	-	-	-	-
Net realized and unrealized gains	41,065	76,949	118,014	11,413	-	129,427	(425,311)	(220,473)	(645,784)	(471,087)	-	(1,116,871)
Donated securities	-	(155)	(155)	(31,038)	-	(31,193)	-	-	-	(101,452)	-	(101,452)
Cash surrender value of life insurance	(17,898)	-	(17,898)	-	-	(17,898)	(15,641)	-	(15,641)	-	-	(15,641)
Amortization of entrance fees	(3,641,350)	-	(3,641,350)	-	-	(3,641,350)	(3,879,524)	-	(3,879,524)	-	-	(3,879,524)
Entrance fees received	5,169,235	-	5,169,235	-	-	5,169,235	1,664,711	-	1,664,711	-	-	1,664,711
(Increase) decrease in operating assets												
Accounts receivable	13,025	(7,831)	5,194	(9,269)	-	(4,075)	122,676	-	122,676	-	-	122,676
Due (to) from other funds	42,641	(55,390)	(12,749)	-	-	(12,749)	(143,835)	(559,215)	(703,050)	-	-	(703,050)
Prepaid expenses	(26,764)	-	(26,764)	-	-	(26,764)	114,915	-	114,915	-	-	114,915
Increase (decrease) in operating liabilities												
Accounts payable	(102,174)	-	(102,174)	-	-	(102,174)	149,363	-	149,363	-	-	149,363
Accrued liabilities	67,147	-	67,147	-	-	67,147	(95,332)	-	(95,332)	-	-	(95,332)
Advances from applicants	188,935	-	188,935	-	-	188,935	(74,591)	-	(74,591)	-	-	(74,591)
Total adjustments	3,938,437	13,573	3,952,010	60,861	-	4,012,871	(548,053)	(779,688)	(1,327,741)	(71,151)	-	(1,398,892)
Net cash provided by (used in) operating activities	\$ 3,546,812	\$ 602,417	\$ 4,149,229	\$ -	\$ -	\$ 4,149,229	\$ 874,706	\$ (220,881)	\$ 653,825	\$ -	\$ -	\$ 653,825

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements
December 31, 2014

Note 1 - Summary of significant accounting policies

Nature of operations

Northern California Congregational Retirement Homes, Inc. (the Corporation) is a nonprofit public benefit corporation that operates Carmel Valley Manor (the Manor), a life care facility located in Carmel, California. The Manor opened in October 1963, and consists of 148 independent living units including five single family homes adjacent to the original Manor property, 24 assisted living units and 36 medical center beds. The Manor provides meals, lodging, most medical care, and miscellaneous services to approximately 223 residents.

Fund accounting

The accounts of the Corporation have been maintained in accordance with principles of fund accounting. Under these principles, resources are classified for accounting purposes into funds established according to their nature and purpose. The individual funds of the Corporation are as follows:

- The Operating Fund comprises resources that are available for support of the Manor's operations.
- The Endowment Fund is comprised of two parts, Part A and Part B.

Part A consists of (1) donations, gifts, bequests made to the Endowment Fund and other unrestricted bequests apparently intended to be enduring and in compliance with the purpose of the fund; (2) remainder interests in those Charitable Remainder Annuity Trusts terminated prior to March 1, 1994; (3) those trusts created prior to March 1, 1994 unless the trustors have specified in writing that the remainder interests shall be placed in Part B; and (4) those trusts created on or after March 1, 1994 with the written consent of the trustors. The principal of Part A shall accumulate and be retained in perpetuity to provide increasing income to the Manor and may be used only to meet the statutory reserve requirements of the State of California or to meet unforeseen emergencies if the assets in Part B are insufficient for these purposes. The investment return on Part A assets are temporarily restricted.

Part B consists of (1) any funds transferred from the Manor's reserve (operating) fund at the designation of the Board; (2) remainder interests in trusts created prior to March 1, 1994 with the written consent of the trustors; and (3) remainder interests in trusts created on or after March 1, 1994 provided the trustors have not specified in writing that such remainder interests shall be placed in Part A. The principal of Part B has no outside restrictions and can be utilized with the approval of the Board of Trustees for: unforeseen emergencies; funding improvements which are financially sound and will substantially improve the quality of life at the Manor; compliance with regulatory requirements; reducing operating expenses and debt which may have been or may be incurred to fund improvements.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 1 - Summary of significant accounting policies (continued)

- The Charitable Remainder Annuity Trusts Fund (Annuity Trusts Fund) consists of the remaining principal amounts of annuity gifts to the Corporation. Under individual trust agreements, the Corporation is required to pay stipulated annuities to the donor over the donor's lifetime. The contribution portion of the gift is determined in the year the trust is established and recorded on the statements of activities and changes in net assets, as the difference between the fair value of the trust assets and the present value of the estimated annuity payments to be paid over the expected life of the annuitant using a discount rate of 8%, which is recorded as a liability on the statements of financial position. Subsequent to initial recognition, the liability is adjusted for discount amortization and revaluations of future payments to beneficiaries based on life expectancies, which are recognized as the change in value of split interest agreements on the statements of activities and changes in net assets. The remaining liability reverts to the Corporation upon death of the donor. The annuitants have designated that, on termination, the remaining principal of each Annuity Trust be transferred to either Part A or Part B of the Endowment Fund. Assets held in the charitable remainder trusts totaled \$1,964,014 and \$1,961,505 at December 31, 2014 and 2013, respectively, and are reported at fair value in the statements of financial position.
- The Charitable Remainder Unitrust Fund (Unitrust) consisted of a trust created in January 1999 by a resident with a donation of real property. This property was sold and the proceeds invested in marketable securities. The Corporation, as trustee, was required to pay nine percent of the fair value of the trust, computed annually, to the donor over the donor's lifetime. The contribution portion of the gift was recorded in the statements of activities and changes in net assets as the difference between the fair value of the trust assets and the present value of the estimated payments to be paid over the expected life of the donor. The entire principal reverted to the Corporation upon death of the donor, which occurred in February 2013.
- The Other Funds are comprised of various temporarily restricted contributions including the Alabaster Fund that consists of a contribution to be used for resident entertainment. The income earned and up to ten percent of the principal may be used annually in the Alabaster Fund.
- The Sinking Fund is comprised of 10% of entrance fees designated by the Board to be used for repaying debt.
- The Residents' Association is comprised of income from the ROSE shop and donations designated for use by the Association. Funds are used by the Association, through the Residents' Council and its committees, primarily to advance the welfare of residents.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 1 - Summary of significant accounting policies (continued)

Classes of net assets

The Corporation has classified the individual funds according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets are those net assets, which are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets are further categorized into undesignated and designated amounts. Undesignated net assets consist of the Manor's Operating Fund. Designated assets generally consist of the Endowment Fund Part B, the Sinking Fund, and the Residents' Association.

Temporarily restricted net assets are those net assets whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by the actions of the Board pursuant to those stipulations. Temporarily restricted net assets generally consist of donations to the Alabaster Fund, the Unitrust and the Annuity Trusts Fund.

Permanently restricted net assets are those net assets whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization. Permanently restricted net assets generally consist of donations to the Endowment Fund Part A.

Basis of accounting

The financial statements of the Corporation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Use of estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Concentration of credit risk

The Corporation maintains cash in brokerage accounts that are not insured by the Federal Deposit Insurance Corporation (FDIC). The Corporation maintains cash balances on deposit with banks that have exceeded the FDIC limit of \$250,000. The Corporation has not experienced any losses in such accounts. Management believes the Corporation is not exposed to significant credit risk relating to cash.

Cash equivalents

The Corporation considers all financial instruments with original maturities of three months or less when purchased to be cash equivalents.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 1 - Summary of significant accounting policies (continued)

Accounts receivable and allowance for doubtful accounts

Accounts receivable consists primarily of amounts due from residents for the monthly care fees and routine medical services and are stated at the amount the Corporation expects to collect. When necessary, the Corporation provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to the allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to accounts receivable. The Corporation has determined there is no need for an allowance for doubtful accounts at December 31, 2014 or 2013.

Investments

Investments in common stock, bond, equity and exchange traded funds are measured at fair value, which is the price that would be received if the investment was sold in an orderly transaction between market participants at the measurement date. Prana investments are valued at the amounts reported to the Corporation by Prana and the Corporation's investment advisors. These amounts are generally reported at face value, which the Corporation believes is a reasonable approximation of fair value. Realized and unrealized gains and losses (fair value fluctuation) are reflected in the statements of activities and changes in net assets.

Property and equipment

Property and equipment are stated at cost. Major additions, alterations, and improvements are capitalized. Repairs and maintenance are charged to expense as incurred. The cost and accumulated depreciation of items disposed of are removed from the accounts, and any gain or loss is included in the statements of activities and changes in net assets.

Depreciation is provided using the straight-line method at rates based on the estimated economic useful lives of the individual classes of assets.

Advances from applicants

Advances from applicants consist of deposits received from applicants who have not signed a continuing care contract as of December 31, 2014 and 2013.

Deferred income from entrance fees

Fees paid by a resident upon entering into a continuing care contract are recorded as deferred revenue and are amortized to income using the straight-line method over the estimated remaining life expectancy of the resident, adjusted annually based on the actuarially determined estimated remaining life expectancy of the resident.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 1 - Summary of significant accounting policies (continued)

Refund of entrance fees

After a ninety day period in which either the Corporation or the resident can cancel the contract without cause and up to approximately 5 years, the Corporation will generally refund to the resident shortly after the termination date of the contract the total amounts paid as the entrance fee less a charge of 1½ percent of the entrance fee for each month that the resident occupied the living accommodation. Based upon the Manor's history of issuing refunds, a refund reserve is not considered necessary as of December 31, 2014 and 2013. The total amount of entrance fees refundable, upon termination of the contract, is approximately \$10.1 million and \$8.6 million at December 31, 2014 and 2013, respectively.

Restricted and unrestricted revenue

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the same period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported on the statements of activities and changes in net assets as net assets released from restrictions.

Income tax and uncertain tax positions

The Corporation is organized and operated exclusively for charitable, religious and educational purposes and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Corporation adopted the accounting guidance for uncertainty in income taxes. The Corporation recognizes tax positions in the financial statements when it is more-likely-than-not the position will be sustained upon examination by the tax authorities. As of December 31, 2014 and 2013, the Corporation had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Corporation's tax returns are subject to examination by the Federal taxing authorities for a period of three years from the date they are filed and a period of four years for California taxing authorities.

Presentation of certain taxes

The Corporation collects sales and occupancy taxes and remits these amounts to applicable taxing authorities. The Corporation's accounting policy is to exclude these taxes from revenues and expenses.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 1 - Summary of significant accounting policies (continued)

Subsequent events

Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are available to be issued. The Corporation evaluates all subsequent events and transactions to determine whether any transaction needs to be recognized or disclosed. The Corporation has evaluated all subsequent events through April 27, 2015, which is the date the financial statements are available to be issued, and has determined no events or transactions need to be recognized or disclosed in these financial statements.

Note 2 - Investments

The Corporation's investment portfolio consists of the following:

	December 31	
	2014	2013
Mutual bond funds	\$ 11,467,098	\$ 11,411,773
Mutual equity funds	11,042,127	9,369,304
Exchange traded funds	-	492,651
Domestic stock	-	104,420
Prana Income Fund - Ten, LLC	1,100,000	1,650,000
Prana Realty Company 1 common stock	213,408	201,139
Total	<u>\$ 23,822,633</u>	<u>\$ 23,229,287</u>

The Corporation invested in unsecured notes issued by Prana Income Fund – Ten, LLC (“Prana”). Prana is a fund that makes loans to limited liability companies (LLC’s) formed for the purpose of investing in residential real estate and mortgage loans presently located in New York and Los Angeles. Prana’s loans to the LLC’s are unsecured and the ability of the LLC’s to repay the Prana loans (principal and interest) is dependent on their ability to generate profits from these properties. The Corporation will receive from Prana fixed interest at 6% payable quarterly and contingent interest at 2%, if any, based upon the results for the underlying assets in the fund. There is also bonus contingent interest at 45% of profits. The initial principal of the notes are repayable in 20% installments, due on December 31, 2012 and each December 31 thereafter until December 31, 2016. At December 31, 2014, the Corporation has 40% of the initial principal balance outstanding. These notes are not readily marketable, in part due to withdrawal restrictions placed by Prana on transferring the notes. Since there is no readily available market for these notes, they are valued at amounts reported to the Corporation by Prana and the Corporation’s investment advisors, which approximates face value less any return of principal. The Corporation believes this is a reasonable approximation of fair value.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 2 - Investments (continued)

The Corporation purchased the common stock of Prana Reality Company I (the Company) in an initial offering in 2007. The Company, through City Reality Partners I (the Partnership), originally acquired 9 and presently owns 10 apartment buildings in the Bronx, New York. The valuation of the class A common stock is determined by the management of the Company based upon the value of the real estate owned by the controlled Partnership of which the Company is the 99% owner and general partner. It is the Partnership's policy to obtain third party appraisals at least once every three years. In 2012 all of the properties were appraised by third party appraisers. From the appraisals, the valuation of real estate held by the Partnership is generally determined by using a multiplier factor applied to the gross rents of a particular property. Management evaluates changes in market conditions from appraisal date to year-end and adjusts the multiplier factor as needed. Share value is estimated as the net asset value divided by the number of outstanding shares at the valuation date. At December 31, 2014 and 2013, the Company has valued each share at \$142,272 and \$134,093, respectively. This investment is not readily marketable, in part due to withdrawal restrictions placed by Prana. Since 2009, Prana has paid out \$7.6 million in redemptions of the \$19 million raised. Rent rolls and market rents both increased during 2014 resulting in a 6% increase in share value and 8% cash distributions. The remaining 10 buildings were valued at \$28.6 million.

Note 3 - Fair value measurements

The Corporation adopted the provisions of fair value measurements which defines fair value, establishes a framework for measuring fair value and also expands the disclosures about fair value measurements. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1. Inputs are based on unadjusted quoted prices for identical assets in an active market the Corporation has the ability to access. Examples of these are investments in common stocks and mutual funds.

Level 2. Inputs are based on quoted prices in markets that are not active and other valuation methodologies or model inputs that are observable either directly or indirectly as of the measurement date. Examples of these investments include corporate and municipal bonds that trade infrequently.

Level 3. Inputs are based on prices or valuation techniques that are unobservable for the investment and include situations where there is little, if any, market activity. These inputs reflect assumptions of management about in pricing the investments or life expectancies. Examples of these investments are certain private equity investments and annuity obligations.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 3 - Fair value measurements (continued)

A summary of the assets and liabilities measured on a recurring basis at fair value, by level including the fair value hierarchy at December 31, 2014 and 2013, is as follows:

	December 31, 2014			
	Total Fair Value	Level 1	Level 2	Level 3
Mutual bond funds				
Investment grade	\$ 10,370,403	\$10,370,403	\$ -	\$ -
Floating rate loans	1,078,219	1,078,219	-	-
U.S. Government	18,476	18,476	-	-
	<u>11,467,098</u>	<u>11,467,098</u>	<u>-</u>	<u>-</u>
Mutual equity funds				
Large Cap	5,016,896	5,016,896	-	-
International	4,452,644	4,452,644	-	-
Alternative investments	1,572,587	1,572,587	-	-
	<u>11,042,127</u>	<u>11,042,127</u>	<u>-</u>	<u>-</u>
Prana Income Fund - Ten, LLC	1,100,000	-	-	1,100,000
Prana Realty Company I	213,408	-	-	213,408
Cash surrender value of life insurance	391,714	-	-	391,714
	<u>391,714</u>	<u>-</u>	<u>-</u>	<u>391,714</u>
Total	<u>\$ 24,214,347</u>	<u>\$22,509,225</u>	<u>\$ -</u>	<u>\$ 1,705,122</u>
Liabilities				
Annuity obligations				
Annuity trusts	\$ 1,126,004	\$ -	\$ -	\$ 1,126,004
Post retirement obligation	172,879	-	-	172,879
	<u>172,879</u>	<u>-</u>	<u>-</u>	<u>172,879</u>
Total	<u>\$ 1,298,883</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,298,883</u>

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 3 - Fair value measurements (continued)

	December 31, 2013			
	Total Fair Value	Level 1	Level 2	Level 3
Mutual bond funds				
Investment grade	\$ 10,457,852	\$10,457,852	\$ -	\$ -
International	843,351	843,351	-	-
U.S. Government	18,262	18,262	-	-
Fixed income	92,308	92,308	-	-
	<u>11,411,773</u>	<u>11,411,773</u>	<u>-</u>	<u>-</u>
Mutual equity funds				
Large Cap	4,559,407	4,559,407	-	-
International	3,303,676	3,303,676	-	-
Alternative investments	1,506,221	1,506,221	-	-
	<u>9,369,304</u>	<u>9,369,304</u>	<u>-</u>	<u>-</u>
Exchange traded funds				
International	492,651	492,651	-	-
Domestic stock	104,420	104,420	-	-
Prana Income Fund - Ten, LLC	1,650,000	-	-	1,650,000
Prana Realty Company I	201,139	-	-	201,139
Cash surrender value of life insurance	373,816	-	-	373,816
	<u>373,816</u>	<u>-</u>	<u>-</u>	<u>373,816</u>
Total	<u>\$ 23,603,103</u>	<u>\$21,378,148</u>	<u>\$ -</u>	<u>\$ 2,224,955</u>
Liabilities				
Annuity obligations				
Annuity trusts	\$ 1,104,930	\$ -	\$ -	\$ 1,104,930
Post retirement obligation	186,974	-	-	186,974
	<u>186,974</u>	<u>-</u>	<u>-</u>	<u>186,974</u>
Total	<u>\$ 1,291,904</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,291,904</u>

Notes to the Financial Statements (Continued)
December 31, 2014

Note 3 - Fair value measurements (continued)

Changes in Level 3 assets measured at fair value on a recurring basis

	December 31, 2013	Gains/ (Losses)	Purchases	Sales	December 31, 2014
Prana Income Fund - Ten, LLC	\$ 1,650,000	\$ -	\$ -	\$ (550,000)	\$ 1,100,000
Prana Realty Company I	201,139	12,269	-	-	213,408
Cash surrender value of life insurance	373,816	17,898	-	-	391,714
Total	<u>\$ 2,224,955</u>	<u>\$ 30,167</u>	<u>\$ -</u>	<u>\$ (550,000)</u>	<u>\$ 1,705,122</u>

	December 31, 2012	Gains/ (Losses)	Purchases	Sales	December 31, 2013
Prana Income Fund - Ten, LLC	\$ 2,200,000	\$ -	\$ -	\$ (550,000)	\$ 1,650,000
Prana Realty Company I	201,139	-	-	-	201,139
Cash surrender value of life insurance	358,175	15,641	-	-	373,816
Total	<u>\$ 2,759,314</u>	<u>\$ 15,641</u>	<u>\$ -</u>	<u>\$ (550,000)</u>	<u>\$ 2,224,955</u>

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 3 - Fair value measurements (continued)

Cash surrender value of life insurance

The Corporation is the owner and the beneficiary of an adjustable universal life insurance policy on the life of the former President of the Corporation. The fair value of this policy is considered equal to the cash surrender value. The cash surrender value is the amount the insurance company would pay upon cancellation of the policy which is calculated by the insurance company as the excess of premiums paid over cost of insurance and administrative fees plus interest earned at a competitive market rate with guaranteed minimum interest rate of 4%. The cash surrender value of the policy was \$391,714 and \$373,816 at December 31, 2014 and 2013, respectively.

Annuity obligations

On an annual basis, the Corporation revalues the liability to make distributions to the designated beneficiaries of the Annuity Trusts and the Unitrust based on actuarial assumptions. The present value of the estimated future payments for Annuity Trusts is calculated using a discount rate of 8% and the remaining life expectancy of the beneficiaries based on applicable mortality tables.

Post retirement obligation

The present value of the estimated future payments to the President of the Corporation is calculated using a discount rate of 6% and a retirement date in 2012.

Note 4 - Post retirement obligation

The Corporation entered into a contract with the former President of the Corporation in which he will serve as a consultant as may be required after he retired in 2012. He will receive an annual payment of \$25,000 for eleven years beginning in January 2013 for a total of \$275,000. If he dies or is disabled at any time before the full \$275,000 is paid, the remaining balance will be paid in full to his trust. Using a present value discount rate of 6% and a quarterly payment of \$6,250, the post-retirement obligation at December 31, 2014 is \$172,879 of which \$14,960 is included in accrued liabilities.

Note 5 - Related parties

Current board members are officers and/or owners of organizations that provide insurance and architectural services to the Manor.



Accountants and
business advisers

Independent Auditor's Report

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CONTRACTS BRANCH

Board of Directors
Northern California Congregational
Retirement Homes, Inc.
Carmel, California

We have audited the accompanying financial statements of Northern California Congregational Retirement Homes, Inc. (the Corporation) which comprise the statements of financial position as of December 31, 2014 and 2013 and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northern California Congregational Retirement Homes, Inc. as of December 31, 2014 and 2013, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PKF

Certified Public Accountants
A Professional Corporation

April 27, 2015

PKF, Certified Public Accountants, A Professional Corporation.
425 California Street, Suite 1600, San Francisco, California 94104 Telephone (415) 421-5378 Facsimile (415) 956-7708
Email: pkf@pkfsf.com | Website: www.pkfcalfornia.com

The PKF International Limited is a network of legally independent firms.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 6 - Property and equipment

The major categories of property and equipment and accumulated depreciation thereon are as follows:

	December 31	
	2014	2013
Building and improvements	\$ 39,960,931	\$ 37,821,618
Hillcrest assisted living center	4,478,838	4,479,695
Medical center	5,009,817	5,009,817
Administrative and activity building	3,254,080	3,254,080
Pavement resurfacing	499,602	499,602
Sprinkler system and well	472,382	472,382
Septic drain	172,207	162,527
Furnishings and carpeting	458,397	456,944
Computer equipment	179,070	173,547
Furniture	1,714,198	1,647,357
Health center equipment	218,327	218,327
Kitchen equipment	506,005	480,209
Maintenance equipment	120,415	97,705
Artwork and collections	145,245	143,026
Miscellaneous equipment	320,833	442,684
Motor vehicles	441,990	441,990
Landscaping	903,541	814,518
Telephone equipment	452,372	452,372
Total depreciable property and equipment	59,308,250	57,068,400
Less accumulated depreciation	(25,551,054)	(23,671,647)
	33,757,196	33,396,753
Land	403,575	403,575
Construction in progress	353,141	1,104,983
Net property and equipment	<u>\$ 34,513,912</u>	<u>\$ 34,905,311</u>

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 7 - Long-term debt

Long-term debt consists of the following:

	December 31	
	2014	2013
Note payable with the 1st Capital Bank, secured by deed of trust, payable in monthly installments of \$25,081 for principal and fixed interest at 4.85% beginning February 5, 2012 and maturing on January 5, 2022, at which time a one time balloon payment estimated to be \$3,227,984 is due.	\$ 4,072,849	\$ 4,173,635
Less current portion	105,784	100,786
Long-term debt - net of current portion	<u>\$ 3,967,065</u>	<u>\$ 4,072,849</u>

Maturities on the long-term debt are as follows:

Year Ending
December 31

2015	\$ 105,784
2016	110,486
2017	116,510
2018	122,289
2019	128,353
Thereafter	<u>3,489,427</u>
Total	<u>\$ 4,072,849</u>

The note payable requires the Manor to comply with certain financial covenants, all of which were met at December 31, 2014 and 2013.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 8 - Long-term care commitment

The Corporation records a liability for the obligation to provide future services and the use of facilities to current residents when such costs are estimated to exceed anticipated revenues and the balance of unamortized entrance fees. Costs are comprised of per capita costs for all residents plus depreciation expense. The per capita costs are calculated based upon a four percent annual increase in costs multiplied by a life expectancy factor for each resident. Anticipated revenues from the few contracts for which there are no fee increases are calculated as current monthly fees multiplied by a life expectancy factor for each resident. Anticipated revenues for all other contracts are calculated as current monthly fees with a four percent annual increase multiplied by a life expectancy factor for each resident. The present value of future cash inflows and outflows is calculated with a discount rate of 6%. Depreciation expense is computed based upon expense per average number of residents multiplied by a total annuity factor for all residents. As of December 31, 2014 and 2013, future revenues were estimated to exceed costs to provide future services, therefore, no long-term care commitment liability is necessary.

Note 9 - Deferred income from entrance fees

The changes in the deferred income from entrance fees are as follows:

	December 31	
	2014	2013
Balance, beginning of year	\$ 24,677,670	\$ 27,156,459
New fees received	5,169,235	1,664,711
Recognition of fees	(3,641,350)	(3,879,524)
Refunds	(76,908)	(263,976)
Balance, end of year	<u>\$ 26,128,647</u>	<u>\$ 24,677,670</u>

Note 10 - Employee retirement plan

The Corporation has a section 403 (b) retirement savings plan. All full-time and part-time employees become eligible to participate in the Plan on their hire date. On-call employees, who work less than 1,000 hours a year, are not eligible to participate in the Plan.

The Manor may match a full-time employee's contribution dollar for dollar up to a maximum of 3% of a participant's compensation. To qualify for the employer discretionary matching contribution, the participant must be a full time employee for a continuous period of 2 years with no breaks in service. Part-time employees are not eligible for the employer discretionary matching contribution. The amount of matched contributions made by the Corporation was \$84,859 and \$88,579 in 2014 and 2013, respectively.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 11 - Temporarily restricted net assets

Temporarily restricted net assets consist of the following:

	December 31	
	2014	2013
Endowment Fund, Part A	\$ 2,405,771	\$ 2,450,578
Other Funds	57,780	55,269
Annuity Trusts Fund	838,010	856,575
Balance, end of year	<u>\$ 3,301,561</u>	<u>\$ 3,362,422</u>

Note 12 - Designated net assets

Designated net assets consist of the following:

	December 31	
	2014	2013
Endowment Fund, Part B	\$ 5,387,948	\$ 5,398,773
Sinking Fund	3,596,900	3,020,309
Residents' Association	82,120	59,042
Balance, end of year	<u>\$ 9,066,968</u>	<u>\$ 8,478,124</u>

Note 13 - Endowment

The Corporation's endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 13 - Endowment (continued)

Interpretation of relevant law

The Board of Directors of the Corporation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as enacted by California in 2008 as SB 1329, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the endowment fund not classified as permanently restricted net assets is classified as temporarily restricted or designated net assets until donor specified restrictions are met or those amounts are appropriated for expenditure by the Corporation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund.
2. The purposes of the Corporation and the donor-restricted endowment fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the organization.
7. The investment policies of the organization.

Investment return objectives and risk parameters

The Corporation has adopted investment and spending policies for the endowment fund. Under this policy, the endowment assets are invested in a manner that is intended to achieve the balanced accomplishment of current income with the growth and conservation of principal with interest and dividend income to be used to help meet operating expenses. At December 31, 2014, endowment investments are allocated as follows: 37% investment grade bonds, 57% U.S. equity funds, and 6% alternative investments. In managing risk within the endowment fund, the objective is to achieve total returns in excess of the average returns for an equity-tilted balance portfolio. Losses of 15% are tolerable.

Strategies employed for achieving objectives

The Corporation's investment strategy involves under and over weighting various asset classes based on an assessment of the risk and return potential specific to each asset class at any point in time.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 13 - Endowment (continued)

Spending policy and how the investment objectives relate to spending policy

The Corporation has a policy of appropriating for distribution each year five percent of the average closing market value of all Endowment Fund investments for the three preceding years to be available for general operating purposes. The five percent allocation on the permanently restricted endowment is distributed from the temporarily restricted endowment. The five percent may be adjusted up or down in the future in order to maintain a fiscally prudent program for distribution consistent with the Corporation's objective to grow and conserve principal in the endowment fund with interest and dividend income to be used to help meet the operating expenses, but not the non-operating requirements, of the Manor.

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Corporation to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2014 or 2013.

Endowment net asset composition by type of fund:

Assets	December 31, 2014			Total
	Permanently Restricted Part A	Temporarily Restricted Part A	Unrestricted Designated Part B	
Cash	\$ -	\$ 12,536	\$ 10,636	\$ 23,172
Accounts receivable	-	214,831	182,269	397,100
Due (to) from other funds	-	-	1,930	1,930
Investments	3,939,796	2,178,404	5,193,113	11,311,313
Total assets	<u>\$3,939,796</u>	<u>\$2,405,771</u>	<u>\$5,387,948</u>	<u>\$11,733,515</u>

Assets	December 31, 2013			Total
	Permanently Restricted Part A	Temporarily Restricted Part A	Unrestricted Designated Part B	
Cash	\$ -	\$ 167,933	\$ 141,906	\$ 309,839
Due (to) from other funds	-	-	(9,281)	(9,281)
Investments	3,939,796	2,282,645	5,266,148	11,488,589
Total assets	<u>\$3,939,796</u>	<u>\$2,450,578</u>	<u>\$5,398,773</u>	<u>\$11,789,147</u>

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 13 - Endowment (continued)

Changes in endowment net assets:

	Year Ended December 31, 2014			Total
	Permanently Restricted Part A	Temporarily Restricted Part A	Unrestricted Designated Part B	
Other income				
Investment income, net	\$ -	\$ 291,304	\$ 246,103	\$ 537,407
Contributions	-	-	25,154	25,154
Net realized and unrealized losses	-	(41,883)	(35,384)	(77,267)
Total other income	-	249,421	235,873	485,294
Net assets released from restrictions				
Endowment income distributions	-	(294,228)	(248,628)	(542,856)
Remainder of terminated annuity trusts	-	-	1,930	1,930
Total net assets released from restrictions	-	(294,228)	(246,698)	(540,926)
Change in net assets	-	(44,807)	(10,825)	(55,632)
Net assets, beginning of year	3,939,796	2,450,578	5,398,773	11,789,147
Net assets, end of year	<u>\$ 3,939,796</u>	<u>\$ 2,405,771</u>	<u>\$ 5,387,948</u>	<u>\$ 11,733,515</u>

	Year Ended December 31, 2013			Total
	Permanently Restricted Part A	Temporarily Restricted Part A	Unrestricted Designated Part B	
Other income				
Investment income, net	\$ -	\$ 199,784	\$ 148,880	\$ 348,664
Contributions	-	-	108,975	108,975
Net realized and unrealized gains	-	414,501	308,886	723,387
Total other income	-	614,285	566,741	1,181,026
Net assets released from restrictions				
Endowment income distributions	-	(299,223)	(222,981)	(522,204)
Remainder of terminated annuity trusts	-	-	534,548	534,548
Total net assets released from restrictions	-	(299,223)	311,567	12,344
Change in net assets	-	315,062	878,308	1,193,370
Net assets, beginning of year	3,939,796	2,135,516	4,520,465	10,595,777
Net assets, end of year	<u>\$ 3,939,796</u>	<u>\$ 2,450,578</u>	<u>\$ 5,398,773</u>	<u>\$ 11,789,147</u>

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 14 - Investment expenses

Expenses relating to investment income, including custodial fees and investment advisory fees, have been included in operating expenses for the Operating Fund and included in change in value of split-interest trusts for the Unitrust. Other investment expenses have been netted against investment income in the accompanying statements of activities and changes in net assets as follows:

	Year Ended December 31	
	2014	2013
Designated net assets		
Endowment Fund, Part B	\$ 20,087	\$ 17,259
Temporarily restricted net assets		
Endowment Fund, Part A	23,776	23,161
Annuity Trust Fund	7,639	7,346
Total	<u>\$ 51,502</u>	<u>\$ 47,766</u>

Note 15 - Supplemental disclosure of non-cash and financing activities

Purchases of property and equipment included in accounts payable were \$217,091 and \$196,521 in 2014 and 2013, respectively.

Note 16 - Health and Safety Code Section 1790 (A)(3) Disclosure

Improvements made during the year include (a) Landscaping of \$166,813 which consists of concrete replacement and artificial turf; (b) facility buildings of \$1,034,329 which consists of unit renovations and structural improvements to the Manor buildings; (c) carpets and floor coverings of \$19,752; (d) furniture and equipment of \$66,842 which consists of office furniture and window coverings; (e) septic tank of \$9,680 which consists of new septic tanks being installed in resident units; (f) computer accounting of \$44,784 which consists of computer and office equipment; (g) kitchen equipment of \$25,797; (h) maintenance equipment of \$31,208 which consists of fans, pumps and a new water conditioning system; (i) artwork of \$2,219; (j) miscellaneous equipment of \$5,010 and (k) construction in progress of \$353,142 which consists of unit renovations.

These improvements are necessary and consistent with the Manor's tax exempt purpose to maintain and provide facilities to meet the housing, health care and other needs of their residents.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)
December 31, 2014

Note 17 - Contingency

The Manor is currently involved in discussions with a third party who alleges that prior to 2012, the Manor engaged in unfair business practices in connection with certain construction work at the Manor, including the alleged failure to obtain building permits and the alleged failure to comply with certain environmental laws and regulations. The Manor is assessing the merits of the allegations and negotiating with all parties involved, with the intent of resolving the matter. The resolution, if it occurs, would involve the payment of an amount which would not impair the Manor's ability to continue to provide service to its residents, and which may be partially recouped from others.

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Independent Auditor's Report on Accompanying Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information on pages 27 through 36 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting records and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information to the underlying accounting records and other records, used to prepare the financial statements or to the financial statements themselves, and other auditing procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

PKF

Certified Public Accountants
A Professional Corporation

April 27, 2015
San Francisco, California

Temporarily Restricted Net Assets Combining Schedule

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NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Temporarily Restricted Net Assets Combining Schedule

	Year Ended December 31, 2014				Year Ended December 31, 2013			
	Endowment Part A	Other Funds	Annuity Trusts	Total	Endowment Part A	Other Funds	Unitrust	Annuity Trusts
Other income								
Investment income	\$ 291,304	\$ 316	\$ 47,413	\$ 339,033	\$ 199,784	\$ 441	\$ -	\$ 50,645
Contributions	-	-	115,354	115,354	-	-	-	102,679
Net realized and unrealized gains (losses)	(41,883)	2,195	28,275	(11,413)	414,501	5,449	-	51,137
Change in value of split-interest trusts	-	-	(207,677)	(207,677)	-	-	92,465	(10,654)
Revaluation of trust obligations	-	-	-	-	-	-	-	-
Total other income (loss)	249,421	2,511	(16,635)	235,297	614,285	5,890	92,465	193,807
Net assets released from restrictions								
Endowment income distribution	(294,228)	-	-	(294,228)	(299,223)	-	-	-
Remainder of terminated annuity trusts	-	-	(1,930)	(1,930)	-	-	(388,778)	(145,770)
Satisfaction of program restrictions	-	-	-	-	-	(1,525)	-	-
Entertainment	-	-	-	-	-	-	-	-
Purchase of property and equipment	-	-	-	-	-	-	-	-
Total released from restrictions	(294,228)	-	(1,930)	(296,158)	(299,223)	(1,525)	(388,778)	(145,770)
Change in net assets	(44,807)	2,511	(18,565)	(60,861)	315,062	4,365	(296,313)	48,037
Net assets, beginning of year	2,450,578	55,269	856,575	3,362,422	2,135,516	50,904	296,313	808,538
Net assets, end of year	\$ 2,405,771	\$ 57,780	\$ 838,010	\$ 3,301,561	\$ 2,450,578	\$ 55,269	\$ -	\$ 856,575
								\$ 3,362,422

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Designated Net Assets Combining Schedule

	December 31, 2014				December 31, 2013			
	Endowment Part B	Sinking Fund	Residents' Association	Total	Endowment Part B	Sinking Fund	Residents' Association	Total
Assets								
Cash	\$ 10,636	\$ 18,515	\$ 63,644	\$ 92,795	\$ 141,906	\$ 9,043	\$ 40,780	\$ 191,729
Accounts receivable	182,269	-	-	182,269	-	-	-	-
Due (to) from other funds	1,930	43,460	-	45,390	(9,281)	(10,000)	-	(19,281)
Total current assets	194,835	61,975	63,644	320,454	132,625	(957)	40,780	172,448
Investments	5,193,113	3,534,925	18,476	8,746,514	5,266,148	3,021,266	18,262	8,305,676
Total assets	\$ 5,387,948	\$ 3,596,900	\$ 82,120	\$ 9,066,968	\$ 5,398,773	\$ 3,020,309	\$ 59,042	\$ 8,478,124
Liabilities and Net Assets								
Designated net assets	\$ 5,387,948	\$ 3,596,900	\$ 82,120	\$ 9,066,968	\$ 5,398,773	\$ 3,020,309	\$ 59,042	\$ 8,478,124
Total liabilities and net assets	\$ 5,387,948	\$ 3,596,900	\$ 82,120	\$ 9,066,968	\$ 5,398,773	\$ 3,020,309	\$ 59,042	\$ 8,478,124

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Designated Net Assets Combining Schedule

	Year Ended December 31, 2014			Year Ended December 31, 2013				
	Endowment Part B	Sinking Fund	Residents' Association	Total	Endowment Part B	Sinking Fund	Residents' Association	Total
Income from operations	\$ -	\$ -	\$ 32,181	\$ 32,181	\$ -	\$ -	\$ 31,369	\$ 31,369
Other income (loss)								
Investment income, net	246,103	101,335	111	347,549	148,880	76,369	107	225,356
Contributions	25,154	-	38,194	63,348	108,975	-	30,033	139,008
Net realized and unrealized gains (losses)	(35,384)	(41,668)	103	(76,949)	308,886	(88,243)	(170)	220,473
Total other income (loss)	235,873	59,667	38,408	333,948	566,741	(11,874)	29,970	584,837
Net assets released from restrictions								
Endowment income	(248,628)	-	-	(248,628)	(222,981)	-	-	(222,981)
Remainder of terminated annuity trusts	1,930	-	-	1,930	534,548	-	-	534,548
Board designated transfers	-	516,924	(47,511)	469,413	-	(318,603)	(50,363)	(368,966)
Total released from restrictions	(246,698)	516,924	(47,511)	222,715	311,567	(318,603)	(50,363)	(57,399)
Change in net assets	(10,825)	576,591	23,078	588,844	878,308	(330,477)	10,976	558,807
Net assets, beginning of year	5,398,773	3,020,309	59,042	8,478,124	4,520,465	3,350,786	48,066	7,919,317
Net assets, end of year	\$ 5,387,948	\$ 3,596,900	\$ 82,120	\$ 9,066,968	\$ 5,398,773	\$ 3,020,309	\$ 59,042	\$ 8,478,124

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Residential Care

	Year Ended December 31	
	2014	2013
Income		
Resident care fees	\$ 8,267,309	\$ 8,603,097
Entrance fees	3,641,350	3,879,524
Other resident services and operating income		
Guest meals	111,591	108,671
Guest rooms	89,480	86,031
Physical therapy	91,372	33,300
Miscellaneous	92,798	85,170
Total income	12,293,900	12,795,793
Departmental expenses (page 34)	8,632,454	8,642,266
Departmental income	\$ 3,661,446	\$ 4,153,527

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Departmental Expenses

Residential Care

	Year Ended December 31	
	2014	2013
Food service		
Salaries and wages	\$ 1,258,922	\$ 1,242,251
Payroll taxes and benefits	686,491	652,748
Food cost	680,003	664,832
Contract maintenance	6,891	4,392
Supplies	73,975	76,021
Uniforms	15,667	18,156
Miscellaneous	8,284	7,812
	<u>2,730,233</u>	<u>2,666,212</u>
Intermediate care		
Salaries and wages	413,087	421,980
Payroll taxes and benefits	183,674	193,264
Supplies	16,762	21,628
Laundry	19,800	19,800
Miscellaneous	8,788	32,954
	<u>642,111</u>	<u>689,626</u>
Housekeeping		
Salaries and wages	369,333	364,889
Payroll taxes and benefits	232,052	215,312
Supplies	29,187	40,884
Uniforms	2,056	3,676
Miscellaneous	24,594	27,381
	<u>657,222</u>	<u>652,142</u>
Laundry & Linen		
Salaries and wages	62,299	67,893
Payroll taxes and benefits	43,290	42,116
Supplies	12,168	11,333
Allocation	(61,800)	(61,800)
Miscellaneous	5,550	5,534
	<u>61,507</u>	<u>65,076</u>
Total (carried over)	<u>\$ 4,091,073</u>	<u>\$ 4,073,056</u>

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Departmental Expenses (Continued)

Residential Care

	Year Ended December 31	
	2014	2013
Total (carried over)	\$ 4,091,073	\$ 4,073,056
Grounds and garden		
Salaries and wages	231,080	223,731
Payroll taxes and benefits	94,021	88,150
Contract maintenance	13,070	12,010
Supplies	4,772	18,262
Trees, shrubs, seeds	33,575	48,901
Uniforms	-	1,787
Maintenance	5,020	9,351
Miscellaneous	195	63
	<u>381,733</u>	<u>402,255</u>
General maintenance		
Salaries and wages	502,865	464,708
Payroll taxes and benefits	183,086	169,896
Contract maintenance	77,362	79,890
Supplies	226,516	300,143
Uniforms	4,909	5,619
Utilities	717,785	697,065
Telephone equipment rental	47,795	62,959
Cable television	50,782	38,789
Miscellaneous	5,265	6,363
	<u>1,816,365</u>	<u>1,825,432</u>
Transportation		
Salaries and wages	73,589	76,523
Payroll taxes and benefits	27,623	26,569
Gas and oil	14,646	15,067
Maintenance	10,424	5,857
Miscellaneous	4,719	5,433
	<u>131,001</u>	<u>129,449</u>
Resident medical plans		
Medical care	36,699	31,979
Hospital care	5,966	24,688
	<u>42,665</u>	<u>56,667</u>
Total (carried over)	<u>\$ 6,462,837</u>	<u>\$ 6,486,859</u>

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Departmental Expenses (Continued)

Residential Care

	Year Ended December 31	
	2014	2013
Total (carried over)	\$ 6,462,837	\$ 6,486,859
Marketing		
Salaries and wages	75,664	79,828
Payroll taxes and benefits	27,436	21,437
Advertising	149,928	106,108
Miscellaneous	-	19,466
	253,028	226,839
PBX		
Salaries and wages	127,257	125,521
Payroll taxes and benefits	59,106	54,604
Miscellaneous	3,366	1,197
	189,729	181,322
General and administrative		
Salaries - management	591,173	530,624
Payroll taxes and benefits	109,236	90,424
Employee medical claims	-	9,181
Contract maintenance	60,518	24,427
Supplies	31,597	29,761
Conferences and meetings	27,634	27,921
Dues and subscriptions	30,819	27,204
Pension plan	84,460	88,579
Insurance - fire and general	181,776	167,301
Investment management fee	26,497	23,765
Legal fees	187,923	297,189
Accounting fees	88,821	99,714
Consulting and professional services	3,880	89,574
Property taxes	7,808	4,184
Software fees	60,936	45,359
Licenses and permits	28,809	19,879
Bad debt	53,600	-
Miscellaneous	82,413	104,410
	1,657,900	1,679,496
Fitness center		
Salaries and wages	15,706	14,383
Payroll taxes and benefits	2,172	1,858
Supplies	827	879
Maintenance	2,042	267
Miscellaneous	702	-
	21,449	17,387
Residents' association	47,511	50,363
Total departmental expenses	\$ 8,632,454	\$ 8,642,266

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Medical Center

	Year Ended December 31	
	2014	2013
Income		
Routine services		
Patient supplies	\$ 55,610	\$ 73,761
Total routine services	55,610	73,761
Residential care fees allocated to routine services	1,338,590	1,310,395
Total income	1,394,200	1,384,156
Departmental expenses (page 36)	3,526,043	3,485,888
Departmental loss	\$ (2,131,843)	\$ (2,101,732)

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Departmental Expenses

Medical Center

	Year Ended December 31	
	2014	2013
Food service		
Salaries and wages	\$ 245,715	\$ 231,964
Food	127,627	121,512
	<u>373,342</u>	<u>353,476</u>
Housekeeping		
Salaries and wages	51,172	48,254
Payroll taxes and benefits	7,771	6,837
Supplies	15,137	18,461
Laundry	42,000	42,000
Miscellaneous	19,604	20,012
	<u>135,684</u>	<u>135,564</u>
General maintenance		
Utilities	108,603	102,999
Repairs and maintenance	-	741
	<u>108,603</u>	<u>103,740</u>
Nursing services		
Salaries and wages	1,444,823	1,435,126
Payroll taxes and benefits	539,280	500,637
Supplies	26,929	34,603
Miscellaneous	3,198	2,966
	<u>2,014,230</u>	<u>1,973,332</u>
General and administrative		
Salaries and wages	240,597	215,845
Payroll taxes and benefits	68,017	52,695
Medical director fee	48,000	48,000
Patient supplies	26,100	40,386
Pharmacy	9,760	19,418
Contract maintenance	19,606	30,152
Miscellaneous	27,418	36,018
	<u>439,498</u>	<u>442,514</u>
Clinic		
Salaries and wages	361,994	372,836
Payroll taxes and benefits	70,653	79,775
Pharmacy	1,593	2,859
Supplies	3,249	6,090
Miscellaneous	17,197	15,702
	<u>454,686</u>	<u>477,262</u>
Total medical center departmental expenses	<u>\$ 3,526,043</u>	<u>\$ 3,485,888</u>

FORM 5-1
LONG-TERM DEBT INCURRED
IN A PRIOR FISCAL YEAR
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1	12/28/11	\$100,786	\$199,777		\$300,563
2					\$0
3					\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
		TOTAL:	\$199,777	\$0	\$300,563

*(Transfer this amount to
Form 5-3, Line 1)*

NOTE: For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Schedule of Long-Term Debt (Form 5-1)

December 31, 2014

Interest paid during the year

Interest expense per Statement of Activities .	\$ 204,266
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Less interest incurred on annuity obligations and not included on Form 5-1	<u>(4,489)</u>
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Total per Form 5-1	<u><u>\$ 199,777</u></u>
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FORM 5-2
LONG-TERM DEBT INCURRED
DURING FISCAL YEAR
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Total Interest Paid During Fiscal Year	(c) Amount of Most Recent Payment on the Debt	(d) Number of Payments over next 12 months	(e) Reserve Requirement (see instruction 5) (columns (c) x (d))
1					\$0
2					\$0
3					\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
TOTAL:		\$0	\$0	0	\$0

*(Transfer this amount to
Form 5-3, Line 2)*

NOTE: For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC

FORM 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	\$300,563
2	Total from Form 5-2 bottom of Column (e)	\$0
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	
4	TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	\$300,563

PROVIDER: NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line		Amounts	TOTAL
1	Total operating expenses from financial statements		<u>\$14,513,738</u>
2	Deductions:		
	a. Interest paid on long-term debt (see instructions)	<u>\$204,266</u>	
	b. Credit enhancement premiums paid for long-term debt (see instructions)		
	c. Depreciation	<u>\$2,150,975</u>	
	d. Amortization		
	e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract	<u>\$201,071</u>	
	f. Extraordinary expenses approved by the Department		
3	Total Deductions		<u>\$2,556,312</u>
4	Net Operating Expenses		<u>\$11,957,426</u>
5	Divide Line 4 by 365 and enter the result.		<u>\$32,760</u>
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.		<u>\$2,457,005</u>

PROVIDER: NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC
COMMUNITY: CARMEL VALLEY MANOR

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Schedule of Net Operating Expenses (Form 5-4)

December 31, 2014

Reimbursement for services to non-residents

Reimbursement for services to non-residents consists of the following:

Guest food service (Page 31 of financial statements)	\$ 111,591
Guest rooms (Page 31 of financial statements)	<u>89,480</u>
Total per Form 5-4, Line 2e	<u><u>\$ 201,071</u></u>

Reimbursements for services to non-residents reconcile to the Statement of Activities and Cash Flows as follows:

Total reported on Form 5-4, Line 2e	\$ 201,071
Other resident services and operating income (Page 31 of financial statements)	
Physical therapy	91,372
Miscellaneous	<u>92,798</u>
Other services per Statement of Activities	385,241
Net change in accounts receivable for other resident services and other income	<u>(18,578)</u>
Other services per Statement of Cash Flows	<u><u>\$ 366,663</u></u>

**FORM 5-5
ANNUAL RESERVE CERTIFICATION**

Provider Name: NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC
 Fiscal Year Ended: 12/31/2014

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 12/31/2014 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year are as follows:

	<u>Amount</u>
[1] Debt Service Reserve Amount	<u>\$300,563</u>
[2] Operating Expense Reserve Amount	<u>\$2,457,005</u>
[3] Total Liquid Reserve Amount:	<u>\$2,757,568</u>

Qualifying assets sufficient to fulfill the above requirements are held as follows:

<u>Qualifying Asset Description</u>	<u>Amount</u> (market value at end of quarter)	
	<u>Debt Service Reserve</u>	<u>Operating Reserve</u>
[4] Cash and Cash Equivalents	<u>\$18,515</u>	<u>\$2,674,259</u>
[5] Investment Securities	<u>\$12,076,878</u>	<u>\$8,541,953</u>
[6] Equity Securities		
[7] Unused/Available Lines of Credit		
[8] Unused/Available Letters of Credit		
[9] Debt Service Reserve		(not applicable)
[10] Other:		
(describe qualifying asset)		
Total Amount of Qualifying Assets Listed for Reserve Obligation: [11]	<u>\$12,095,393</u>	<u>\$11,216,212</u>
Reserve Obligation Amount: [13]	<u>\$300,563</u>	<u>\$2,457,005</u>
Surplus/(Deficiency): [15]	<u>\$11,794,830</u>	<u>\$8,759,207</u>

Signature:

Gene D. Spivey
 (Authorized Representative)

Date: APRIL 30, 2015

PRESIDENT & CEO
 (Title)

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Schedule of Qualifying Assets for Liquid Reserves (Form 5-5)

December 31, 2014

Form 5-5 Line [4] - Cash and Cash Equivalents:

Total cash (Page 2 of the financial statements)	\$ 2,768,633
Less restricted cash and cash equivalents (Page 27 of the financial statements)	
Annuity Trusts	(75,859)
Less sinking fund reported on Form 5-5, line 4 for Debt Service Reserve (Page 29 of the financial statements)	<u>(18,515)</u>
Total for Form 5-5, line 4, Operating Reserve (includes \$63,644 designated for use by the Residents' Association)	<u><u>\$ 2,674,259</u></u>

Form 5-5 Line [5] - Investment Securities:

Undesignated	
Managed portfolio of mutual and exchange traded funds	\$ 6,514,116
Designated for use by the Residents' Association	
Vanguard Short Term Federal Fund	18,476
Endowment Fund (combination of board designated and donor restricted)	
Managed portfolio of mutual and exchange traded funds	<u>10,551,313</u>
Total for Form 5-5, line 5 (allocate equally to Debt Service and Operating Reserves at \$8,541,953 each)	17,083,905
Designated for use by Sinking Fund	
Managed portfolio of mutual funds (allocated 100% to Debt Service Reserve)	3,534,925
Non-qualifying investments	
Undesignated level 3 investments	553,408
Endowment level 3 investments	760,000
Annuity Trusts portfolio (Page 27 of the financial statements)	<u>1,890,395</u>
Total investments (Page 2 of the financial statements)	<u><u>\$23,822,633</u></u>

Mutual funds and exchange traded funds are included in qualifying assets since they are publicly traded and readily liquidated for cash. These various funds hold portfolios that consist of debt and equity securities that may or may not individually meet the definition of qualified assets for reserves as per sections 1771(e)(7) or 1771 (l)(2).

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

	<u>RESIDENTIAL LIVING</u>	<u>ASSISTED LIVING</u>	<u>SKILLED NURSING</u>
[1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	<u>See Schedule</u>	<u>See schedule</u>	<u>See schedule</u>
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	<u>3.0%</u>	<u>3.0%</u>	<u>3.0%</u>

☐ Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

[3] Indicate the date the fee increase was implemented: January 1, 2014
 (If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

- ☒ Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.
- ☒ All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.
- ☒ At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.
- ☒ At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.
- ☒ The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.
- ☒ The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

PROVIDER: NOTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC
COMMUNITY: CARMEL VALLEY MANOR

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Schedule of Adjustments in Monthly Fees

December 31, 2014

[1] Monthly fees for each unit type as of January 1, 2014:

Independent living	\$ 3,210	to	\$ 7,930
Hillcrest (personal care)	\$ 3,540	to	\$ 5,980
Skilled nursing facility	\$ 3,920	to	\$ 6,880

[5] In arriving at a 3.0% increase in monthly fees for 2014, the following data and processes were used:

Data used:

- Current year's data through nine months.
- Annualized amounts based upon the actual nine months.
- Guidelines from Budget and Finance Committee of the Board of Directors for average payroll increases of 3.0%.
- Guidelines from Budget and Finance Committee of the Board of Directors for capital improvements.
- CPI Healthcare San Francisco region.

Processes used:

- Each department projected costs for the year, which included salaries.
- Budgets reviewed and analyzed by President/CEO and Director of Finance.
- Revisions made and resubmitted.

Final product submitted to Budget and Finance Committee of the Board of Directors for approval. Once the Budget and Finance Committee approves the budget, it is submitted to the Board of Directors for approval. Current budget reflects the approved amounts and the increases for the monthly fees.

**Continuing Care Retirement Community
Disclosure Statement
General Information**

Date Prepared: 3/31/2015

RECEIVED

FACILITY NAME: NORTHERN CALIFORNIA RETIREMENT HOMES, INC

ADDRESS: 8545 CARMEL VALLEY ROAD

ZIP CODE: 93928

PHONE: 831-624-1281

PROVIDER NAME: CARMEL VALLEY MANOR

FACILITY OPERATOR: SAME

RELATED FACILITIES: NONE

RELIGIOUS AFFILIATION: NONE

YEAR # OF ☒ SINGLE ☒ MULTI-

OPENED: 1963 ACRES: 28+ STORY STORY ☐ OTHER: _____

MILES TO SHOPPING CTR: 5

MILES TO HOSPITAL: 6

NUMBER OF UNITS:

RESIDENTIAL LIVING

APARTMENTS — STUDIO: 8
APARTMENTS — 1 BDRM: 70
APARTMENTS — 2 BDRM: 43
COTTAGES/HOUSES: 27

HEALTH CARE

ASSISTED LIVING: 24
SKILLED NURSING: 36
SPECIAL CARE: NONE
DESCRIPTION: > N/A

RLU OCCUPANCY (%) AT YEAR END: _____

TYPE OF OWNERSHIP:

☒ NOT-FOR-PROFIT

☐ FOR-PROFIT

ACCREDITED?: ☐ YES ☐ NO BY: _____

FORM OF CONTRACT:

☐ CONTINUING CARE

☒ LIFE CARE

☒ ENTRANCE FEE

☐ FEE FOR SERVICE

(Check all that apply)

☐ ASSIGNMENT OF ASSETS

☐ EQUITY

☐ MEMBERSHIP

☐ RENTAL

REFUND PROVISIONS: (Check all that apply) ☐ 90% ☐ 75% ☐ 50% ☒ FULLY AMORTIZED ☐ OTHER: _____

RANGE OF ENTRANCE FEES: \$ 110,900 - \$ 578,200

LONG-TERM CARE INSURANCE REQUIRED? ☐ YES ☒ NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT:

SKILLED NURSING, ASSISTED LIVING, OUTPATIENT & INPATIENT MEDICAL CARE

ENTRY REQUIREMENTS: MIN. AGE: 65

PRIOR PROFESSION: N/A

OTHER: _____

RESIDENT REPRESENTATIVE(S) TO THE BOARD (briefly describe their involvement): > NONE

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES	AVAILABLE	FEE FOR SERVICE	SERVICES AVAILABLE	INCLUDED IN FEE	FOR EXTRA CHARGE
BEAUTY/BARBER SHOP	<input checked="" type="checkbox"/>	<input type="checkbox"/>	HOUSEKEEPING (4 TIMES/MONTH)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BILLIARD ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	MEALS (3/DAY)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BOWLING GREEN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CARD ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>			
CHAPEL	<input checked="" type="checkbox"/>	<input type="checkbox"/>	24-HOUR EMERGENCY RESPONSE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
COFFEE SHOP	<input type="checkbox"/>	<input type="checkbox"/>	ACTIVITIES PROGRAM	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CRAFT ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ALL UTILITIES EXCEPT PHONE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
EXERCISE ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	APARTMENT MAINTENANCE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
GOLF COURSE ACCESS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CABLE TV	<input type="checkbox"/>	<input checked="" type="checkbox"/>
LIBRARY	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LINENS FURNISHED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
PUTTING GREEN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LINENS LAUNDERED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SHUFFLEBOARD	<input type="checkbox"/>	<input type="checkbox"/>	MEDICATION MANAGEMENT	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SPA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	NURSING/WELLNESS CLINIC	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-INDOOR	<input type="checkbox"/>	<input type="checkbox"/>	PERSONAL HOME CARE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-OUTDOOR	<input checked="" type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PERSONAL	<input type="checkbox"/>	<input checked="" type="checkbox"/>
TENNIS COURT	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PREARRANGED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
WORKSHOP	<input checked="" type="checkbox"/>	<input type="checkbox"/>	OTHER <u>SEWING ROOM</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
OTHER <u>COMPUTER CENTER</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>			

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

PROVIDER NAME: _____

<u>OTHER CCRCs</u>	<u>LOCATION (City, State)</u>	<u>PHONE (with area code)</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

<u>MULTI-LEVEL RETIREMENT COMMUNITIES</u>	<u>LOCATION (City, State)</u>	<u>PHONE (with area code)</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

<u>FREE-STANDING SKILLED NURSING</u>	<u>LOCATION (City, State)</u>	<u>PHONE (with area code)</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____

<u>SUBSIDIZED SENIOR HOUSING</u>	<u>LOCATION (City, State)</u>	<u>PHONE (with area code)</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____

NOTE: PLEASE INDICATE IF THE FACILITY IS A LIFE CARE FACILITY.

PROVIDER NAME: _____

	2011	2012	2013	2014
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME				
(Excluding amortization of entrance fee income)	10,213,278	10,500,749	10,331,794	10,078,931
LESS OPERATING EXPENSES				
(Excluding depreciation, amortization, and interest)	11,081,801	11,768,767	12,128,154	12,158,497
NET INCOME FROM OPERATIONS	-868,523	-1,268,018	-1,796,360	-2,079,566
LESS INTEREST EXPENSE	264,928	284,270	224,772	204,266
PLUS CONTRIBUTIONS	242,271	264,935	313,587	216,052
PLUS NON-OPERATING INCOME (EXPENSES)				
(excluding extraordinary items)	-388,638	1,745,511	1,915,254	713,763
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	-1,279,818	458,159	207,709	-1,354,017
NET CASH FLOW FROM ENTRANCE FEES				
(Total Deposits Less Refunds)	3,528,924	4,676,469	1,590,120	5,358,170

DESCRIPTION OF SECURED DEBT *(as of most recent fiscal year end)*

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGATION	DATE OF MATURITY	AMORTIZATION PERIOD
1ST CAPITAL BANK	4,072,849	4.85%	02/05/2012	01/05/2022	120 MONTHS

FINANCIAL RATIOS (see next page for ratio formulas)

	2013 CCAC Medians 50 th Percentile <i>(optional)</i>	2012	2013	2014
DEBT TO ASSET RATIO		6.72%	6.72%	6.37%
OPERATING RATIO		114.81%	119.56%	122.66%
DEBT SERVICE COVERAGE RATIO		13.95%	6.21%	13.57%
DAYS CASH ON HAND RATIO		552.37%	498.81%	548.64%

HISTORICAL MONTHLY SERVICE FEES (Average Fee and Change Percentage)

	2011	%	2012	%	2013	%	2014
STUDIO	\$2,850		\$2,985		\$3,120		\$3,210
ONE BEDROOM	\$3,481		\$3,646		\$3,810		\$3,920
TWO BEDROOM	\$5,854		\$6,132		\$6,410		\$6,600
COTTAGE/HOUSE	\$6,104		\$6,394		\$6,680		\$6,880
ASSISTED LIVING							
SKILLED NURSING							
SPECIAL CARE							

COMMENTS FROM PROVIDER: > NONE

> _____
 > _____

PROVIDER NAME: _____

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

OPERATING RATIO

$$\frac{\begin{array}{l} \text{Total Operating Expenses} \\ - \text{Depreciation Expense} \\ - \text{Amortization Expense} \end{array}}{\text{Total Operating Revenues} - \text{Amortization of Deferred Revenue}}$$

DEBT SERVICE COVERAGE RATIO

$$\frac{\begin{array}{l} \text{Total Excess of Revenues over Expenses} \\ + \text{Interest, Depreciation, and Amortization Expenses} \\ \text{Amortization of Deferred Revenue} + \text{Net Proceeds from Entrance Fees} \end{array}}{\text{Annual Debt Service}}$$

DAYS CASH ON HAND RATIO

$$\frac{\begin{array}{l} \text{Unrestricted Current Cash \& Investments} \\ + \text{Unrestricted Non-Current Cash \& Investments} \end{array}}{(\text{Operating Expenses} - \text{Depreciation} - \text{Amortization})/365}$$

NOTE: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

Worksheet for KIR for 2014 Carmel Valley Manor

Date Prepared: 6/9/2015

Please attach an explanatory memo that summarizes significant trends or variances in the key operational indicators.

June 11, 2015

Chief Executive Officer Signature

RECEIVED
Forecast
JUN 11 2015

summarizes significant trends or variances in the key operational indicators.

	Projected					Forecast							Preferred Trend Indicator
						JUN 1 - 2015							
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020		
OPERATIONAL STATISTICS													
1. Average Annual Occupancy by Site (%)	95.30%	95.95%	94.59%	88.51%	90.54%	94.59%	95.00%	95.00%	95.00%	95.00%	95.00%	95.00%	N/A
MARGIN (PROFITABILITY) INDICATORS													
2. Net Operating Margin (%)	-10.29%	-8.50%	12.08%	-17.39%	-20.63%	-10.00%	-7.50%	-7.00%	-6.50%	-6.00%			↑
3. Net Operating Margin - Adjusted (%)	30.12%	19.36%	22.46%	-1.73%	20.84%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	N/A
LIQUIDITY INDICATORS													
4. Unrestricted Cash and Investments (\$000)	\$16,295	\$15,884	\$18,288	\$16,925	\$19,021	\$18,000	\$19,000	\$20,000	\$21,000	\$22,000			↑
5. Days Cash on Hand (Unrestricted)	558	523	567	509	571	550	560	570	580	590			↑
CAPITAL STRUCTURE INDICATORS													
6. Deferred Revenue from Entrance Fees (\$000)	\$3,471	\$2,955	\$3,876	\$3,880	\$3,641	\$3,900	\$3,998	\$4,097	\$4,200	\$4,305			↑
7. Net Annual E/F proceeds (\$000)	\$5,589	\$3,529	\$4,676	\$1,590	\$5,281	\$4,000	\$4,100	\$4,203	\$4,308	\$4,415			↑
8. Unrestricted Net Assets (\$000)	\$16,756	\$17,169	\$19,377	\$21,359	\$21,556	\$21,000	\$21,525	\$22,063	\$22,615	\$23,180			↑
9. Annual Capital Asset Expenditure (\$000)	\$2,403	\$2,669	\$2,448	\$2,314	\$1,633	\$2,000	\$2,050	\$2,101	\$2,154	\$2,208			↑
10. Annual Debt Service Coverage Revenue Basis (x)	3.30%	-20.49%	2.16%	54.00%	-3.83	4.00%	5.45%	5.91%	5.76%	5.80%			↑
11. Annual Debt Service Coverage (x)	11.3	39.17	13.46	5.37	8.29	8	8.25	8.5	8.8	9.0			↑
12. Annual Debt Service/Revenue (%)	3.93%	0.48%	2.99%	7.08%	2.91%	5.00%	5.00%	5.20%	5.40%	5.60%			↓
13. Average Annual Effective Interest Rate (%)	5.68%	0.55%	4.88%	4.39%	7.20%	4.50%	4.50%	4.50%	4.50%	4.50%			N/A
14. Unrestricted Cash & Investments/ Long-Term Debt (%)	336.92	333.16	438.19	415.56	479.46	420	297.4	296.8	311	312			↑
15. Average Age of Facility (years)	11.75	12.06	11.68	11.64	11.88	11.50	12.40	12.60	12.80	13.00			↑